CHETWOOD

INVESTMENT MANAGEMENT

ESG PORTFOLIOS

QUARTER 3 2024 REPORT

Quarter Insights

- Most investment asset classes enjoyed positive returns over the quarter, despite several bouts of market volatility.
- US equities posted strong second-quarter earnings, with good results expanding beyond large tech stocks, signalling healthier market environment.
- A surprise rate hike from the Bank of Japan led to the largest single-day drop in Japanese equities since 1987.
- On the other side of the world, The US Federal Reserve started its long-awaited rate-cutting cycle, reducing rates by 0.5%. The Bank of England also cut rates for the first time in four years.
- While inflation cooled, the focus shifted to slowing economic growth, with a weaker July US jobs report.
- The Israel-Hezbollah conflict escalated, adding to geopolitical risks, but markets absorbed the volatility relatively well.
- As the quarter closed, China announced a new stimulus package to encourage growth, leading to a positive response from Chinese equities.

Market Review

The third quarter of 2024 was, on the whole, a constructive period for the markets, though it wasn't without its bumps. Volatility picked up toward the end of July, triggered by a surprise rate hike from the Bank of Japan. This move, combined with softer economic data from the US called into question the strength of the US economy. The triggering of the Sahm Rule, a common indicator of recession risk, didn't help the mood.

Yet, amid the uncertainty, bonds reminded us of their historical role as a refuge. The yield on the 10-year US Treasury, which started the quarter near 4.5%, fell to 3.8% by early August, reflecting renewed demand. This fall in yield meant prices have risen. For much of the past two years, as inflation dominated market concerns both asset classes moved together.

> *But with inflation starting to ease bonds have started to increase in price during periods of equity market stress.*

In tandem, "bond proxy" sectors like utilities and real estate, which offer steady earnings, also saw strong performance.

On the interest rate policy front, the US Federal Reserve held off on raising interest rates during its July meeting. Critics began to argue that the Fed might be behind the curve on cutting rates, much as it was accused of being late to address inflation in 2022. By contrast, the Bank of England took a more proactive stance, cutting rates by 25 basis points in August, marking its first rate cut in over four years.

By September, with inflation nearing the Fed's 2% target, the central bank took action and cut rates by 50 basis points (0.5%), bringing the federal funds rate down to 4.75%. Signs of a cooling labour market likely influenced this pre-emptive move to avoid more serious disruptions.

Meanwhile, equities posted broad gains, supported by robust earnings reports, especially in cyclical sectors and smaller companies. China's announcement of a 3% GDP stimulus package added further support, though concerns linger about its structural issues. Still, markets remain focused on the near term, with stimulus measures sparking a significant surge in Chinese equities.

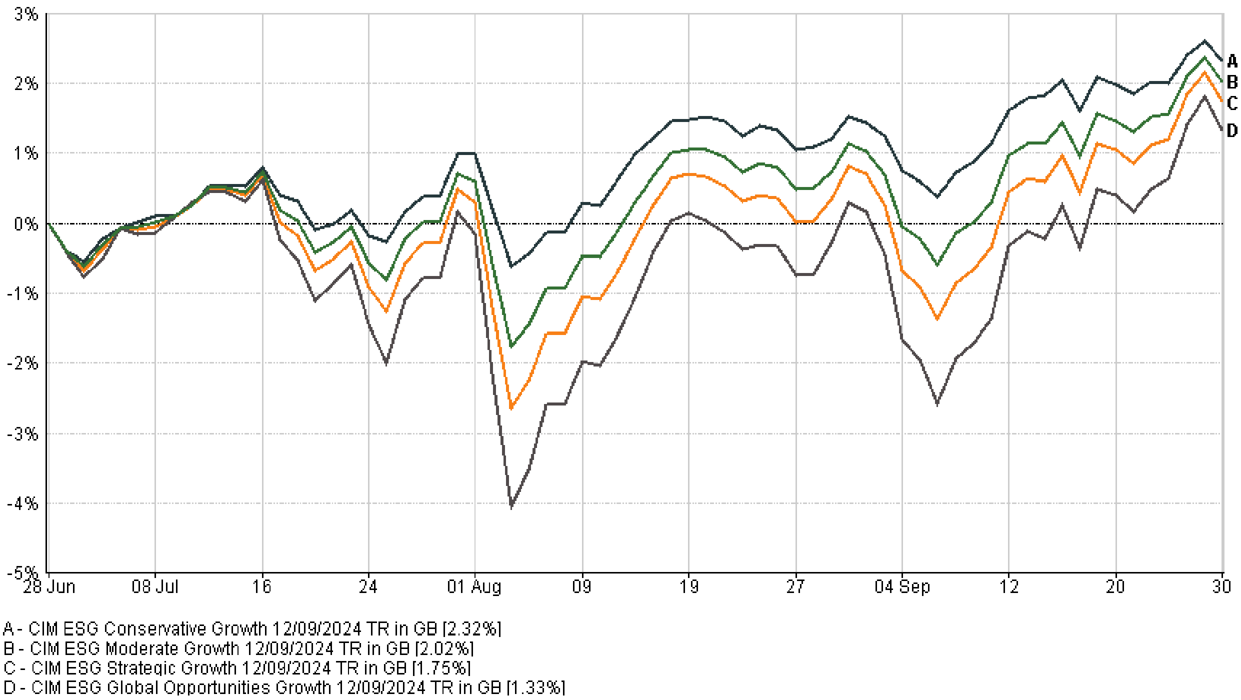
Portfolios performance

Portfolio / Comparator	3 months
CIM ESG Conservative Growth Portfolio	2.32%
ARC Sterling Cautious PCI	1.91%
CIM ESG Moderate Growth Portfolio	2.02%
ARC Sterling Balanced Asset PCI	1.81%
CIM ESG Strategic Growth Portfolio	1.75%
ARC Sterling Steady Growth PCI	1.81%
CIM ESG Global Growth Opportunities Portfolio	1.33%
ARC Sterling Equity Risk PCI	1.71%

Index Returns[1]	3 months
UK Equities	1.75%
UK Government Bonds (Gilts)	2.36%
All Country World Equities	0.49%
Pacific Equities (ex Japan)	7.66%
Emerging Market Equities	1.98%
US Equities	-0.28%
UK Headline Inflation	0.30%

Past performance is not a reliable indicator of future performance; and the value of investments, as well as the income from them can go down as well as up, and investors may get back less than the original amount invested.

Performance graph



28/06/2024 - 30/09/2024 Data from FE fundinfo2024

Key Funds and Trades over the Quarter

Top 3 Model Funds	3 months
JPM Global High Yield Bond Multi-Factor ETF	4.74% ▲
JPMorgan Climate Change Solutions ETF	4.50% ▲
iShares Green Bond Index Hedged	4.10% ▲

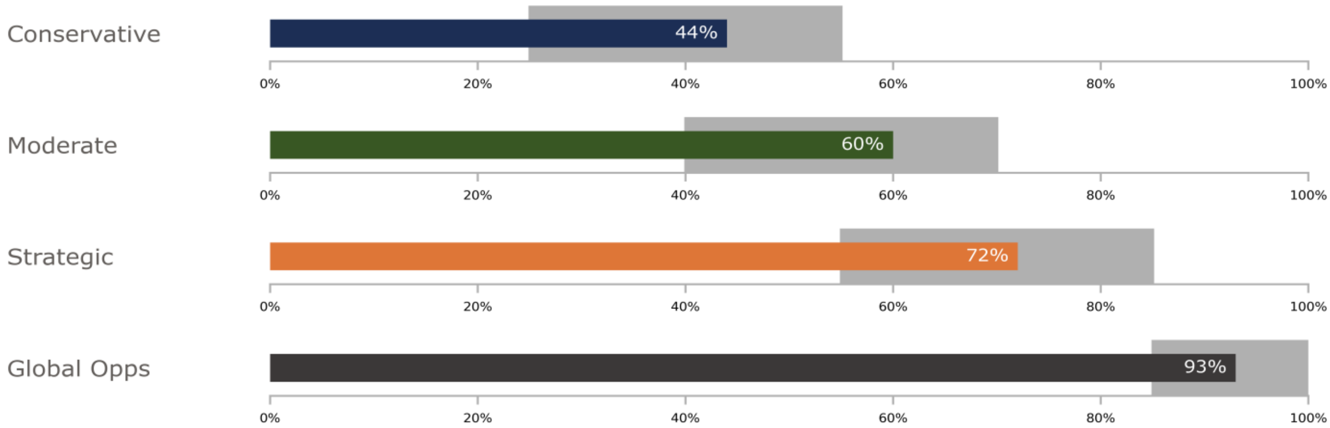
Bottom 3 Model Funds	3 months
Stewart Investors Asia Pacific Sustainability	0.08% ▼
Polar Emerging Market Stars	-0.33% ▼
FT Clearbridge US Equity Sustainable Leaders	-0.88% ▼

Source FE Analytics to 30th September 2024

Key fund	Commentary
iShares Global Aggregate Bond ESG Hedged ETF Hedged	This fund tracks a broad index of investment-grade bonds from around the world, predominantly issued by governments and corporations. The fund adopts a best-in-class approach to sustainable investing, which means that it invests in the best issuers from an Environmental Social and Governance perspective. The performance of global bonds was helped by expectations of interest rate cuts. We intentionally hold a share class of the fund that hedges out the foreign exchange risk, meaning performance was not impacted by the relative strength of Sterling over the quarter.
Royal London Sustainable Leaders Trust	This fund invests in companies that the managers deem to be making a positive contribution to society or the environment. These companies can also demonstrate leading sustainable practices in the way they operate. Key themes within the fund include electric/autonomous vehicles, social infrastructure, and energy transition. The portfolio will always maintain a strong bias (>80%) to UK companies, which helped performance during Q3.
Vanguard Global Sustainable Equity	The fund holds a portfolio of global equities that are selected in accordance with the fund's sustainability policy. The managers exclude investments that fall within an exclusions policy (e,g companies involved in thermal coal and nuclear / controversial weapons). They then consider each company's alignment to the Fund's stewardship assessment, net zero and carbon footprint targets. The fund achieved a 2.9% total return in Q3 despite a flat overall performance from global equities. This provides further evidence of a broadening out of returns away from the large US tech stocks, which occupy a large portion of global size-weighted equity indexes.

Asset class review

Equity Exposure



Conservative

Ten largest fund holdings (%)

JPM Global Macro Sustainable	12.8%
iShares Global Aggregate Bond ESG ETF	11.8%
Lyxor Core UK Government Bond ETF	11.0%
JPM Glb HY Corp Bond Multi-Factor Hdged	9.5%
iShares Green Bond Index Hedged Dis	9.3%
Polar Emerging Market Stars SX Inc	7.9%
JPM Climate Change Solutions ETF	7.8%
Vanguard Global Sustainable Equity	7.3%
Stewart Investors Asia Pac Sustainable	7.2%
ClearBrige US Sustainability Leaders	6.9%
Assets in top ten holdings	91.5%

Ten largest asset class exposures (%)

Government Bonds	19.3%
North American Equities	14.2%
Corporate Bonds	12.8%
Other Alternatives	12.8%
Asia Pacific ex Japan Equities	11.1%
High Yield Bonds	9.5%
UK Equities	6.0%
European Equities	6.0%
Emerging Market Equities	4.3%
Cash	2.0%

Cash includes cash held in underlying funds plus GBP held in model.

Moderate

Ten largest fund holdings (%)

Polar Emerging Market Stars SX Inc	10.8%
JPM Global Macro Sustainable	10.8%
JPM Climate Change Solutions ETF	10.7%
Vanguard Global Sustainable Equity	10.0%
Stewart Investors Asia Pac Sustainable	9.8%
ClearBrige US Sustainability Leaders	9.4%
Royal London Sustainable Leaders Trust	8.9%
JPM Glb HY Corp Bond Multi-Factor Hdged	7.5%
iShares Green Bond Index Hedged Dis	7.3%
iShares Global Aggregate Bond ESG ETF	6.6%
Assets in top ten holdings	91.8%

Ten largest asset class exposures (%)

North American Equities	19.4%
Asia Pacific ex Japan Equities	15.2%
Government Bonds	10.8%
Other Alternatives	10.8%
Corporate Bonds	9.3%
UK Equities	8.3%
European Equities	8.2%
High Yield Bonds	7.5%
Emerging Market Equities	5.9%
Cash	2.0%

Cash includes cash held in underlying funds plus GBP held in model.

Asset class review

Strategic

Ten largest fund holdings (%)

Polar Emerging Market Stars SX Inc	13.1%
JPM Climate Change Solutions ETF	13.0%
Vanguard Global Sustainable Equity	12.1%
Stewart Investors Asia Pac Sustainable	11.9%
ClearBrige US Sustainability Leaders	11.4%
Royal London Sustainable Leaders Trust	10.8%
JPM Global Macro Sustainable	9.2%
JPM Glb HY Corp Bond Multi-Factor Hdged	4.7%
iShares Green Bond Index Hedged Dis	4.6%
iShares Global Aggregate Bond ESG ETF	3.7%
Assets in top ten holdings	94.5%

Ten largest asset class exposures (%)

North American Equities	23.6%
Asia Pacific ex Japan Equities	18.4%
UK Equities	10.0%
European Equities	9.9%
Other Alternatives	9.2%
Emerging Market Equities	7.2%
Government Bonds	6.1%
Corporate Bonds	5.7%
High Yield Bonds	4.7%
Cash	2.0%

Cash includes cash held in underlying funds plus GBP held in model.

Global Opps

Ten largest fund holdings (%)

Polar Emerging Market Stars SX Inc	16.8%
JPM Climate Change Solutions ETF	16.7%
Vanguard Global Sustainable Equity	15.6%
Stewart Investors Asia Pac Sustainable	15.3%
ClearBrige US Sustainability Leaders	14.6%
Royal London Sustainable Leaders Trust	13.9%
JPM Global Macro Sustainable	5.2%
Assets in top ten holdings	98.1%

Ten largest asset class exposures (%)

North American Equities	30.2%
Asia Pacific ex Japan Equities	23.6%
UK Equities	12.9%
European Equities	12.7%
Emerging Market Equities	9.2%
Other Alternatives	5.2%
Japan Equities	2.5%
Cash	2.0%
Other	1.7%

Cash includes cash held in underlying funds plus GBP held in model.

Asset Class	Portfolio Views
Fixed Interest	A shift in rate expectations lifted bonds in Q3, but markets may be overestimating the pace of cuts in a soft-landing scenario, potentially limiting near-term gains. We prefer UK government bonds, given their higher yields versus other developed markets. Emerging market local currency bonds also appeal, with opportunities from easing inflation and currency strength.
UK Equities	UK equities appear attractively valued and well-positioned to benefit from lower interest rates and increased political stability. The economic recovery is gaining momentum, with improving consumer and business confidence. Additionally, robust M&A activity, driven by these low valuations, should support market performance.
US Equity	US corporate earnings are strong, and economic growth is slowing but remains healthy, though volatility is likely, especially with November's election. Encouragingly, the long-anticipated "broadening out" of returns is taking shape, offering opportunities beyond the dominance of large-cap tech. We continue to emphasise diversification, as many tech stocks are priced with limited margin for safety.
Japan Equity	We maintain our positive view on Japanese equities. Japan is benefiting from steady growth and inflation nearing target levels, creating a supportive macro environment. Positive earnings revisions, alongside a rise in stock buybacks and dividends, signal increasing shareholder returns. Structural reforms in corporate governance continue to act as a tailwind supporting the long-term investment case.
Asia and Emerging Market Equity	Asian equities rallied late in September as new stimulus measures from Chinese policymakers boosted sentiment. Valuations across the region remain appealing, and earnings growth is expected to stay robust into 2025. With supportive policies and attractive fundamentals, we maintain our overweight position.
Alternatives	Alternatives provided valuable diversification when bonds and equities showed a positive correlation over the past year. However, with correlations now turning more negative and a growing range of opportunities within equities, we continue our underweight stance.

Outlook

As we move into the final quarter of 2024, it's clear the market's concern over inflation is now fading into the background. The focus has shifted to the overall health of the economy. In our view, the most likely scenario remains a soft landing, an economy that's slowing but still continues to grow. Inflation is coming down, and while the unemployment rate has ticked up, we see this as more a reflection of an expanding labour force than a sign of trouble. In fact, we should see it as part of a normalisation process, rather than a reason for alarm.

> *Even if the economy weakens more than anticipated, central banks are well-equipped to provide additional support. With interest rates relatively high, they have the flexibility to cut rates if needed.*

Looking at corporate earnings, reports covering the third quarter will be closely watched. Expectations have been tempered, but it is curious that while Q3 estimates have been revised lower, full-year 2025 estimates remain strong. We will likely hear more about this as we listen to management commentary during results season. We have also seen a notable broadening of market participation beyond the largest tech stocks particularly as the Fed eases and China's stimulus kicks in.

As ever, there are plenty of potential sources of volatility in the months ahead, from geopolitical tensions to Fed decisions and the US election. Overall, we think the positive momentum in economic data, lower interest rates and support from China should keep markets on solid footing, even in the face of potential headwinds. Our current analysis is that the fundamentals for growth remain solid.

Thoughts for the quarter ahead...

- Investors will likely focus on signs of a weakening global economy, as this will be critical in determining whether major central banks proceed with anticipated rate cuts.
- If UK interest rates remain higher than those of other countries, we could see upward pressure on Sterling, which we are monitoring closely.
- We're paying particular attention to third-quarter earnings, watching for further signs of broadening earnings, which would support our current positioning.
- Historically, the fourth quarter tends to be strong for equity market returns. With policy easing on the horizon and solid earnings growth, the environment looks favourable for risk assets in our view.
- The upcoming US Presidential election in November may trigger market volatility, which we will aim to capitalise on. A split Congress is typically seen as beneficial for US equities.
- The Labour Budget, set for October 30th, could have a notable impact on UK markets, and we are closely following this development.

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Risk factors should be taken into account and understood including (but not limited to) currency movements, market risk, liquidity risk, concentration risk, inflation risk, performance risk, local market risk and credit risk.

Investors should be aware that past performance is not an indication of future performance, the value of investments and the income derived from them may fluctuate and you may not receive back the amount you originally invested.

[1] For the comparative index returns, we have used the total return performances of the following ETF's:

Comparative index	**ETF Name**
UK Equities	ISHARES CORE FTSE 100
US Equities	ISHARES CORE S&P 500
European Equities (ex UK)	ISHARES MSCI EUROPE EX-UK
Emerging Market Equities	ISHARES CORE EM IMI ACC
Japanese Equities	ISHARES CORE MSCI JAPAN
Pacific Equities (ex Japan)	ISHARES CORE MSCI PACIF X-JP
UK Government Bonds (Gilts)	ISHARES CORE UK GILTS
Global Bonds (GBP hedged)	ISHARES CORE GLB AGG GBP-H D
Commodities	ISH DIVERS COMMOD SWAP ETF