

# ABACUS ESG - DFM PROFILES

## QUARTERLY UPDATE (Q3 2024)



### Market Commentary

2024 started with markets expecting an acceleration in global growth and corporate earnings, declining inflation, and massive central bank interest rate cuts. In anticipation, bonds and equity prices rallied strongly through the turn of the year.

The combination of all these expectations proved too good to be true. Growth has been resilient but so too has inflation. This dynamic supported equity and commodity markets in the first half of the year, but was challenging for Government bond markets, as the prospect of large and imminent rate cuts has diminished.

All this led to strong gains for most equity markets in the first six months of the year. For example, US equities were up 14.48% to the end of June, with the UK, Europe, and Emerging Market equities all up around 6%. Broad commodity markets were also up on average 6% in the first six months of 2024, whilst gold saw a 12% rise and silver 22%.

In contrast, global Government bonds were down close to -5% by the end of June.

As we look to the next 12 months, we expect global growth to remain robust, although its geographical composition is changing. Momentum is starting to weaken in the US, but the opposite is true in Europe, which is seeing real wages rise and an improvement in consumer confidence.

With resilient growth comes resilient inflation, but it is likely central bankers will be willing to tolerate some overshoot of their targets. Interest rates are therefore set to move modestly lower in most major regions but are likely to remain considerably higher than pre-pandemic levels.

Geopolitical risks remain but are hard to position for. Despite the harrowing continual loss of life from the ongoing conflicts in Ukraine and the Middle East (to name just a couple), we do not foresee significant economic or market ramifications.

UK and European Parliament elections are unlikely to result in major global market movements. The new UK Government will live in the shadow of Liz Truss's mini-budget crisis, so fiscal prudence and economic stability will be their focus.

Looking ahead to the US election, we still don't know for sure who will win, or whether they will have full control of Congress and therefore the ability to enact their full agenda.

All that said, we continue to see risk assets rise, led by US equities continuing their march upwards. A slip in earnings for the likes of Nvidia (who's market capitalisation is now valued higher than all UK stocks combined!) could bring prices sharply lower, but equity market volatility remains low and stable, which is a good sign.

As we head into the summer season, we do so with decent returns under our belts for the half year, in the knowledge the models remain well managed. We remain pragmatic and continue to question our assumptions and market outlook. Should the economic environment change, we will adapt as required.

## ESG Profile Allocations

FUND	3	4	5	6	7	8
Aikya Global Emerging Markets Fund	0.00%	0.00%	6.00%	9.00%	9.00%	15.00%
Amundi MSCI Emerging Markets SRI PAB Index Fund	0.00%	0.00%	0.00%	0.00%	9.00%	15.00%
CCLA Better World Global Equity Fund	6.00%	8.00%	10.00%	12.00%	12.00%	13.00%
Schroders Global Sustainable Value Equity Fund	6.00%	8.00%	10.00%	12.00%	12.00%	13.00%
Janus Henderson USA Sustainable Equity Fund	4.00%	7.00%	7.00%	7.00%	8.00%	8.00%
Vanguard Global Sustainable Equity Fund	4.00%	6.00%	6.00%	8.00%	8.00%	8.00%
L&G Future World ESG UK Index Fund	3.00%	5.00%	5.00%	6.00%	6.00%	6.00%
Royal London Sustainable Leaders Trust	3.00%	5.00%	5.00%	6.00%	6.00%	6.00%
Impax Environmental Leaders Fund	0.00%	3.00%	3.00%	5.00%	5.00%	5.00%
Montanaro Better World Fund	0.00%	3.00%	3.00%	5.00%	5.00%	5.00%
L&G Future World ESG Japan Index Fund	0.00%	2.00%	2.00%	3.00%	4.00%	4.00%
Aegon Global Sustainable Sovereign Bond Fund GBPH	12.00%	10.00%	9.00%	6.00%	4.00%	0.00%
Dimensional Global Sustainability Fixed Income Fund GBPH	12.00%	10.00%	9.00%	6.00%	4.00%	0.00%
BlackRock ICS Sterling LEAF	12.00%	3.00%	3.00%	3.00%	0.00%	0.00%
HSBC Global Sustainable Government Bond Index Fund GBPH	12.00%	6.00%	6.00%	4.00%	0.00%	0.00%
EdenTree Responsible and Sustainable Short-Dated Bond Fund	8.00%	7.00%	6.00%	3.00%	3.00%	0.00%
TwentyFour Sustainable Short Term Bond Income Fund GBPH	8.00%	7.00%	6.00%	3.00%	3.00%	0.00%
BlueBay Global High Yield ESG Bond Fund GBPH	4.00%	4.00%	2.00%	0.00%	0.00%	0.00%
Schroders BlueOrchard EM Climate Bond Fund GBPH	4.00%	4.00%	0.00%	0.00%	0.00%	0.00%
Cash	2.00%	2.00%	2.00%	2.00%	2.00%	2.00%
OCF*	0.38%	0.48%	0.52%	0.58%	0.59%	0.64%

\*OCFs as at 30/06/2024

## Changes & Rationale

Across the Abacus ESG - DFM Profiles, we made several changes to increase exposure to Government bonds, specifically in the UK, whilst slightly increasing duration. We also decreased exposure to dividend-paying equities and increased exposure to Japanese equities, over the last few months.

### Aegon Global Sustainable Sovereign Bond Fund GBPH

#### Dimensional Global Sustainability Fixed Income Fund GBPH

We trimmed these two funds slightly in Abacus ESG – DFM Profile 3, to enable a higher allocation to a new HSBC Global Sustainable Government Bond Index Fund.

#### Baillie Gifford Responsible Global Equity Income Fund

This fund was removed to reduce exposure to dividend-paying equities and to UK equities, rather than because of fund-specific issues.

#### CT Responsible UK Income Fund

This fund was removed to reduce exposure to dividend-paying equities and to UK equities, rather than because of fund-specific issues.

#### Dimensional Global Sustainability Short Fixed Income Fund GBPH

This fund was removed and replaced with a core duration fund to increase the duration of our fixed income exposure.

### EdenTree Green Infrastructure Fund

This fund underperformed due to rising rates and poor sentiment towards the alternative energy sector. Although many of the UK-listed investment trusts held by the fund are at historic discounts to Net Asset Value (NAV), presenting a compelling valuations opportunity, on balance the risks of continuing to hold this fund outweigh the potential rewards. We therefore removed this fund from the models and reallocated the capital to existing holdings.

### Impax Asian Environmental Markets Fund

We removed this fund to better position our Emerging Market (EM) equity exposure following recent changes to our Tactical Asset Allocation. Furthermore, this fund underperformed the Developed Market (DM) version meaningfully over the past six months. We therefore rotated back to this version, the Impax Environmental Leaders Fund, which continues to perform ahead of expectations.

### Triodos Pioneer Impact Fund

There have been several changes to the Portfolio Management (PM) team for this fund lately. Although this doesn't appear to have materially affected risk/return, we would feel more comfortable rotating to a fund with more stability in the PM team. We will keep this fund on our watchlist to see how risk/return data evolves under the stewardship of Dimitri Willems and his team.

### Funds Added/Allocation Increased

#### HSBC Global Sustainable Government Bond Index Fund GBPH

We added this fund to increase the duration of our fixed income exposure. It is an index fund and tracks the Bloomberg MSCI Global Treasury ESG Weighted Index, which integrates MSCI Government ESG Scores to prioritise exposure to economies that are better managing their exposure to ESG risks and opportunities. For example, economies like Germany and Finland are more prominent than in the non-ESG equivalent index, and the USA is less prominent.

#### Impax Environmental Leaders Fund

See Impax Asian Environmental Markets Fund.

#### L&G Future World ESG UK Index Fund

We added this fund to better position our UK equity exposure. It is part of a range of index funds and tracks the Solactive L&G Enhanced ESG UK Index. As well as sector exclusions, the range applies various tilts based on LGIM's propriety ESG Scores. All funds within the range aim to reduce carbon emissions intensity relative to vanilla indexes to achieve net zero emissions via a decarbonisation pathway. L&G's range of index funds also benefits from LGIM's Climate Impact Pledge, which is a dedicated engagement programme focusing on climate issues.

#### L&G Future World ESG Japan Index Fund

We added this fund, which is part of the same range of index funds as the L&G Future World ESG UK Index Fund, to better position our Japanese equity exposure.

#### Montanaro Better World Fund

This is a replacement for the Triodos fund. We have followed the Montanaro fund for a few years now and have been particularly impressed by best-in-class sustainability credentials. Indeed, it was voted the 'Best ESG Global Equity Fund' for 2024 at the MainStreet Partners awards. The purpose of the fund is to invest in small and medium-sized companies that are making a positive impact on the world. These companies fit into 6 categories: environmental protection, green economy, innovative technologies, healthcare, nutrition, and wellbeing.

#### Vanguard Global Sustainable Equity Fund

We added this fund to better position our Developed Market equity exposure. The fund is sub-advised by Wellington because Vanguard outsource almost all their actively managed equity funds. Vanguard have been working with Wellington for some time; in fact, Wellington is Vanguard's largest subadvisory partner. The fund benefits from Wellington's best-in-class sustainable investment research team and a long-standing collaboration with the Woodwell Climate Research Center.

## Funds Rebalanced

We adjusted exposure to the following allocations to better map to our tactical asset allocation.

BlueBay Global High Yield ESG Bond Fund GBPH  
CCLA Better World Global Equity Fund  
Janus Henderson USA Sustainable Equity Fund  
Royal London Sustainable Leaders Trust  
Schroders Global Sustainable Value Equity Fund

## Performance

Performance over the last 12-months is as follows:

Abacus ESG Profile 3 - DFM	7.89%
Abacus ESG Profile 4 - DFM	8.29%
Abacus ESG Profile 5 - DFM	7.50%
Abacus ESG Profile 6 - DFM	7.14%
Abacus ESG Profile 7 - DFM	7.56%
Abacus ESG Profile 8 - DFM	6.91%

Source of Data: FE analytics  
Data as of 30/06/2024

## Case Study / Theme

This quarter, we focus on the Sustainability Disclosure Requirements.

The Sustainability Disclosure Requirements (SDR) train rolls on. Towards the end of April, the FCA published a consultation paper proposing the extension of SDR to portfolio management services, for example MPS, but also more bespoke offerings. The consultation period is under-way, and we look forward to responding in due course.

Uncertainty about the potential scope of the regulatory regime and the timeline for implementation will need to be addressed, as will issues about the proposed product labels and the naming and marketing rules. For one, interoperability is crucial.

In May, the European Securities and Markets Authority (ESMA) published a similar set of guidelines to mitigating greenwashing risks. Thankfully, the categories put forward by ESMA (Environmental, Social, Governance, Transition, Sustainability and Impact) share a lot in common with the SDR product labels.

The cost benefit analysis included in the FCA's consultation paper also raises important questions about how smaller businesses with fewer resources will be able to comply with the new regulations. Constructive collaboration between industry and the regulator will be key to arrive at a set of regulations that works for customers.

The Tavistock Asset Management (TAM) Sustainable Investment Policy outlines our approach to sustainable investing, explaining how we separate leaders from laggards, and how we exclude certain controversial sectors from our investable universe. In other words, what we invest in and what we do not.

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