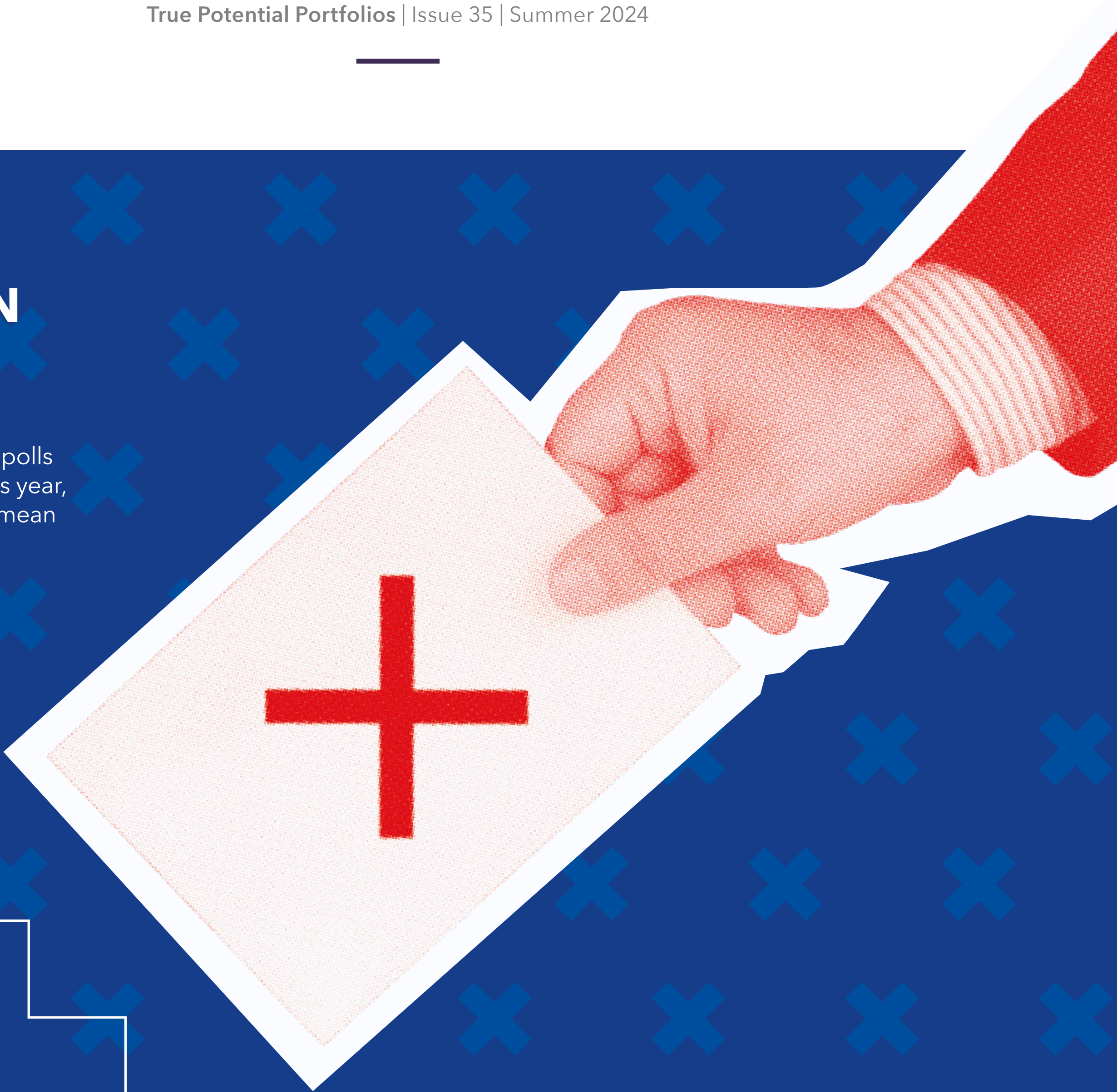
# TRUE INSIGHT

**True Potential Portfolios** | Issue 35 | Summer 2024



## ELECTION SPECIAL!

As people go to the polls around the world this year, what will the results mean for investors? **pg. 10**

## ALSO INSIDE



true potential investments

# Contents.





With investing, your capital is at risk. Investments can fluctuate in value and you may get back less than you invest. The contents of this magazine should not be interpreted as personalised financial advice.

**Mark Henderson**
Chief Executive
True Potential Investments

**+ Welcome to the summer edition of True Insight, it should be sunny and warm but the typically unpredictable UK weather has kicked in. However, we are used to this and get on with things as we always do.**

In contrast to the weather, the most predictable General Election result in decades was confirmed on 5th July, a huge majority for the incoming Labour Government resulting in 251 Conservative MPs having to find new employment. Turnout at the polls was low and as a result we have a new Government elected by less than 20% of the eligible voting population which is why early commentators talked about a wide but shallow majority. Whether this has an effect on policy implementation remains to be seen but whatever happens, we will continue to manage investments impartially, allocating capital diligently as we seek to maximise the returns available to our clients.

As the UK settles into a new political world, we can turn our attentions to the US election and what this means for global markets. Reassuringly we have experienced life under both Presidential candidates and successfully navigated through both stormy and calmer waters during both administrations.

The US will continue to dominate global markets regardless of the result in November. Trade driven by consumption is key in a global environment particularly as we see interest rate cuts accelerating in the latter part of 2024 and into 2025.

2024 is election year in many countries and in this edition you have our take on the possible investment implications. Our multi asset approach of investing globally means we must pay attention and be ready to adapt if necessary.

Other topics covered in the following pages include our thoughts and actions on Sustainability in Investment, which is a hot topic for governments and regulators, particularly in the UK.

Sustainability and environmental impact are also factors in our final article after new UK bank notes, featuring a portrait of King Charles III, were issued on 5th June. The new notes will only be printed to replace those that are worn and to meet any overall increase in demand for banknotes. This approach is in line with guidance from the Royal Household, to minimise the environmental and financial impact of this change. As we explore in the article, there are other factors in play which have affected the demand for bank notes.

I hope you enjoy reading this edition of True Insight with our thanks for investing with True Potential.

**1.80%**

The True Potential Cautious Income Portfolio was up 1.80% in the second quarter of 2024.

**10.64%**

The True Potential Balanced Portfolio has grown by 10.64% in the last 12 months.

**99.15%**

The True Potential Aggressive Portfolio has grown by 99.15% since launch (October 2015).

Figures shown after Ongoing Charges Figure (OCF) has been deducted.

# Performance update.

**Jeff Casson**
Chief Investment Officer
True Potential Investments

**+ The second quarter of 2024 saw positive returns from all True Potential Portfolios. The strongest performance came from the Cautious Income Portfolio returning +1.80%. The Portfolio performance was driven by strong active management and manager selection.**

US Tech continued to perform well in Q2, predominantly led by one company, Nvidia (+36.7%), driven by positive sentiment around utility of the processors they design with Artificial Intelligence. The expected timing and magnitude of interest rate cuts remained a key discussion point over the quarter. Concerns around inflation overheating in April moderated as the personal consumption expenditures (PCE) index eased to 2.6% in May.

The softer US data also fed into a strong quarter for Emerging Markets, outperforming their developed peers, supported by a rebound in Chinese companies.

> "The FTSE100 hit fresh all-time highs and the Bank of England maintained interest rates at 5.25%."

| Portfolios | 3 months | 1 year | Since launch (1 Oct 2015) |
|---|---|---|---|
| Defensive | +0.37% | +6.52% | **+23.00%** |
| Cautious | +0.66% | +8.69% | **+39.50%** |
| Cautious + | +0.74% | +9.36% | **+41.85%** |
| Cautious Income | +1.80% | +10.20% | **+48.51%** |
| Balanced | +0.84% | +10.64% | **+57.30%** |
| Balanced + | +0.85% | +11.24% | **+64.65%** |
| Balanced Income | +1.69% | +11.56% | **+55.86%** |
| Growth | +0.98% | +12.52% | **+81.21%** |
| Growth + | +1.20% | +14.01% | **+82.67%** |
| Aggressive | +1.26% | +15.01% | **+99.15%** |

Source: True Potential Investments, data as of 30 June 2024.

In the UK, the FTSE100 hit fresh all-time highs and the Bank of England maintained interest rates at 5.25% despite slowing UK growth and headline CPI inflation falling to the 2% target in May.

The True Potential Schroders Cautious Income fund grew +3.57% in the second quarter of 2024, ranking it the top performing True Potential fund and even outperforming global equities. Despite emerging markets and the narrowly led US outperforming other regions, the active management within their UK equity allocation performed extremely well over the quarter. The fund is currently a 22% allocation of the Cautious Income Portfolio and 6% of the Balanced Income Portfolio.

Since the launch of the True Potential Portfolios on 1 October 2015, investors have been rewarded with solid long-term growth and income. The True Potential Cautious Income Portfolio has grown +48.51% since launch, with a forward looking 12-month yield of 3.73%.

Full five year past performance data for the True Potential Portfolios can be found on page 22. Figures shown after Ongoing Charges Figure (OCF) has been deducted.

**Scan and log in to your online account to view and manage your investments.**

With Investing, your capital is at risk. Investments can fluctuate in value, and you may get back less than you invest. Past performance is not a guide to future performance.

# Review of the markets: Q2 2024

**3.0%**

The MSCI World index rose more than 3% over the quarter.

Source: Factset, June 2024.

**6.0%**

US equities added another 6% over the quarter.

Source: Factset, June 2024.

**4.0%**

Positive performance of over 4% in the UK and emerging markets.

Source: Factset, June 2024.

**Equity markets had another sparkling quarter underpinned by ongoing US economic resilience, recovery of activity in Europe and strong earnings, particularly in the Technology sector. The MSCI World index, a basket of global developed market equities, rose more than 3% over the quarter, taking the year-to-date performance to 13% in Sterling terms. US equities added another 6% over the quarter, followed by positive performance of over 4% in the UK and emerging markets. Global growth optimism was evident in all these major markets.**

The Technology sector has been a key driver for positive equity markets this year – the AI-driven boom has proved a rising tide that floated all boats. From research to manufacturing, to data warehouses and server capacity, the demand for AI technology and investment continues. This has benefited equity markets from the US to Taiwan. Whilst Nvidia may have cornered the market, new entrants will inevitably challenge their dominance as the innovation in this exciting frontier evolves.

Early in the quarter, some slightly higher US inflation prints led to increased nervousness that major central banks may not have done enough monetary tightening. Encouragingly, a lower US CPI print in May allayed those fears. Resilient economic activity data and this slightly firmer inflation data led to further delay in US interest rate cuts.


> "The Technology sector has been a key driver for positive equity markets this year."

Markets now have confidence that there may only be one US interest rate cut this year, of only -0.25%, compared with expectations for six cuts at the beginning of the year. The European Central Bank was the first major central bank to cut interest rates in June but there too, subsequent cuts are expected to be modest. The UK now has the lowest inflation of all major economies, yet the Bank of England (BOE) kept Base Rate at 5.25%. There is surely room for the BOE to begin lowering interest rates soon.

The up and down of inflation expectations left bond yields little changed over the quarter but reduced fears of a renewed surge in inflation. The higher yields available within fixed income markets rekindled investor interest in the role of bonds as a diversifier in multi asset portfolios. The yield premium of corporate over sovereign bonds continued to fall, reflecting the confident mood in markets.

Emmanuel Macron's decision to call early parliamentary elections in France and the prospect of a majority for the far-right National Rally party sparked fears of a re-emergence of political volatility in Europe and helps to explain the underperformance of European equities. However, such concerns may prove unfounded, as was the case with the election of Georgia Meloni in Italy in 2022.

US consumer spending has been a significant driver of US and indeed global growth since the pandemic. Mounting evidence that household excess savings have been largely worked off and that consumers are becoming more discerning in their spending choices simply reflects a more normal economy there. Relatively strong household and corporate balance sheets within developed economies, and evidence of increased AI-related investments, support the confident economic backdrop and optimistic outlook.

> “The political change ahead is going to be remarkable. We have a new party of Government in the UK.”

# Market outlook.

**+ The political change ahead is going to be remarkable. We have a new party of Government in the UK and a new parliamentary force in France. The balance of power within the European Parliament has also shifted, even if the elected president of the Commission remains. And come the Autumn it seems increasingly likely that Donald Trump will be returned to the White House.**

The ongoing economic cycle in the US is both remarkable and durable. Taxes on Americans have been kept low, enabling greater purchasing power for households even in the face of the inflation-boom of 2022. US consumers are enjoying widespread employment, greater flexibility in their working conditions and growth in their real (adjusting for inflation) incomes. Asset prices, in both the property and equity market, are at all time highs. What a remarkable tailwind for continued economic growth for the rest of the year.

If Main Street is booming, then what about Wall Street? The AI-driven frenzy in global equity markets signals a new frontier for the way we will use technology in our offices, homes and daily life. The potential for AI-linked tools to enrich our lives in the decades ahead is beyond comprehension. US corporations are investing hundreds of billions of dollars in AI research and infrastructure every year, fuelling an undercurrent of investment-led growth across the economy.

Global equities remained buoyed by this exciting dynamic and being invested in well diversified portfolios continues to bear fruit.

This is all somewhat of a contrast to the economic backdrop in the UK. Remarkably, UK business investment is 1% below where it was one year ago. Public sector investment has essentially flatlined for a decade. Our government is borrowing over £100 billion every year just to keep the lights on in our public services. A tax burden reaching an 80-year high combined with a record number of people on NHS waiting lists, long-term sick and disability benefits is a difficult mix for any government. Delivering growth within the UK economy given this mix of tax and spend is going to be a Herculean task.

Where there is room for optimism is interest rates. They appear too high across much of the developed world given the evolving inflation backdrop. The last hold-out in the decline in price pressures is within services, but inflation is declining here too. Specifically in the UK, we should see interest rates begin to fall from late summer – inflation will fluctuate somewhat over the next few months, but the downward trend is clear. The COVID-induced inflation boom is over and this is to be celebrated. Robust global growth and lower inflation are the perfect tailwind for well diversified global portfolios over the quarter ahead.

# ELECTION SPECIAL!

**In his cynical masterwork *The Devil's Dictionary* (1906), the US writer Ambrose Bierce defined *vote* as the "instrument and symbol of a freeman's power to make a fool of himself and a wreck of his country".**

As people go to the polls around the world this year, will the results make fools of investors? And are countries – and their financial markets – set to get wrecked?

We don't think so. As we said in issue 33 of True Insight, we think politicians are often given too much credit when it comes to their ability to influence markets. Other factors tend to be much more important – and these are typically out of politicians' hands.

**Uncertainties abound.**

That's not to say there isn't plenty of political uncertainty. Over half the world's population is voting this year, so it would be odd if there weren't a few unexpected outcomes along the way. And there can be shocks and spills even before votes have been cast. The announcement of July's general election in the UK came as a surprise, for example; most people had expected Rishi Sunak to hold out until the autumn at least. Similarly, few had expected Emmanuel Macron to call a snap legislative election in France this summer.

Timings aside, though, we've already had some unexpected results. In Mexico's presidential election, the favourite's majority was much larger than expected. In India, the ruling BJP party has been forced into coalition. In South Africa, the ANC has lost its majority for the first time in 30 years. And while the broad outcome of the European Union elections was continuity, there were some startling results at national level.

The outcome of the UK election may have appeared a foregone conclusion, but the US presidential race – the most important of this year's elections – seems too close to call at present. So we can be certain about one thing: there's plenty of uncertainty ahead.

**Keep calm and carry on.**

A degree of uncertainty shouldn't unduly alarm those who invest in well-managed, multi-asset Portfolios. The ebb and flow of party politics is a relatively minor factor in the performance of investments – especially for those who are well diversified across asset classes and regions, and who take a long-term view. We may well see short-term spasms in the markets after any further surprises that the electoral cycle throws. But we don't expect to see major shifts in direction.

> "A degree of uncertainty shouldn't unduly alarm those who invest in well-managed, multi-asset Portfolios."

It's not that politics don't matter for markets. But a change of government isn't often a huge deal: if politics is the art of the possible, the range of options available to most governments is often rather limited.

What does startle markets, though, is any unexpected outcome. That's because investors are always looking ahead. So an outcome that confounds expectations is going to lead to a recalibration, with shifts in Portfolio holdings as investors look to capitalise on change by buying beneficiaries and selling assets that look less attractive in the new light. Conversely, a widely predicted result – like that in the UK – is long factored in by the time it actually arrives.

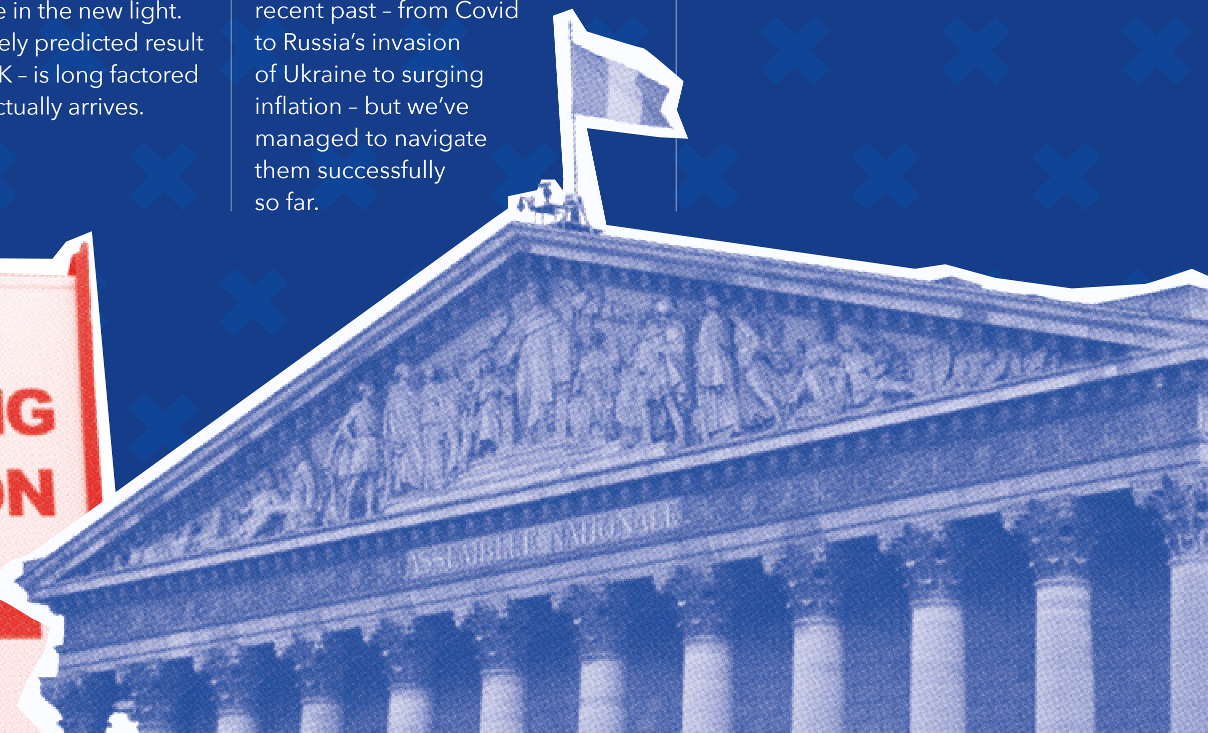

**Some things stay the same.**

In this context, it's worth remembering that what matters most to investors are factors that are largely beyond the direct control of politicians: monetary policy (i.e. interest rates), the direction of inflation, economic growth and – crucially – corporate earnings.

Although the electoral cycle may influence some of these factors in various ways, global macroeconomic forces are much more important here. Monetary policy is independent of elected governments in the UK, the EU and the US. Appointments at the Federal Reserve, for example, run for 14 years: three and a half times the length of a US presidential term. And while elections make a lot of noise, the broadening out of company earnings from US tech stocks to the UK and elsewhere is a much more important signal.

**Sticking to our knitting.**

At True Potential, our job is to look after our clients' money whatever happens. We've had no shortage of choppy waters in the recent past – from Covid to Russia's invasion of Ukraine to surging inflation – but we've managed to navigate them successfully so far.



Whatever happens in the twists and turns of the election campaigns ahead, we'll stay focused on our core competency – ensuring that our Portfolios are appropriately diversified and poised to take advantage of the opportunities that election outcomes create.

Let's finish with another entry from *The Devil's Dictionary*. Ambrose Bierce defines *politician* as "an eel in the fundamental mud upon which the superstructure of organized society is reared. When he wriggles he mistakes the agitation of his tail for the trembling of the edifice."

Harsh, perhaps, but wise words all the same. Amid the political agitation of 2024, we're looking through the electoral wriggling to what really matters for markets.

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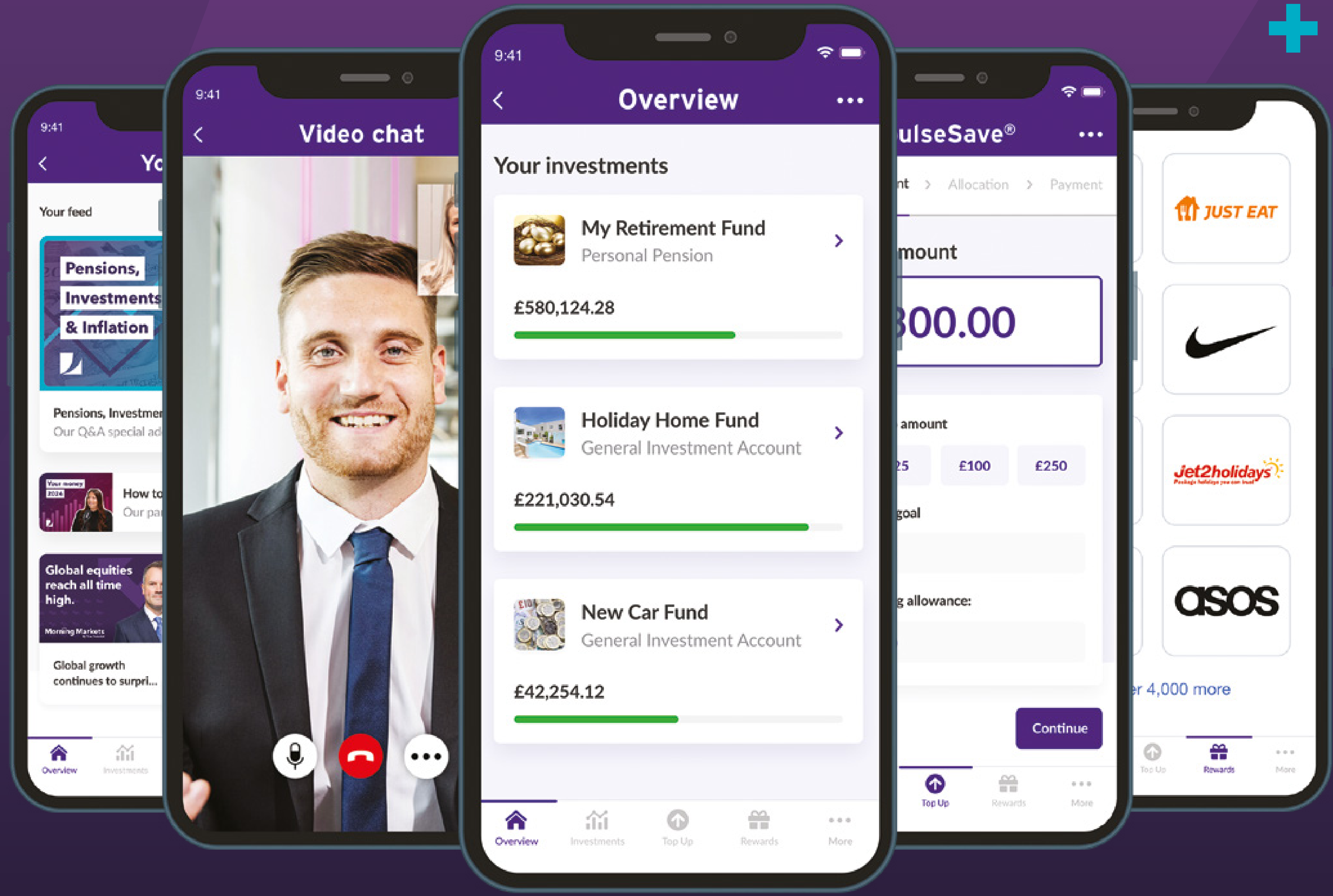


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With investing, your capital is at risk. Investments can fluctuate in value and you may get back less than you invest.


# Portfolio changes: Q2 2024

**Following changes made both at Portfolio and underlying manager level, equities and fixed income allocations have increased over the quarter at the expense of alternatives and cash. The higher equity allocation has been driven primarily through additions to the UK and US, whilst high yield and sovereign bonds have done the same for fixed income allocations.**

Disinflation momentum continued through Q2, allowing the European Central Bank and others to cut interest rates. UK inflation is now back to the Bank of England's 2% target which should give room to start the long anticipated rate cut cycle later this year. In the US, inflation continues to trend lower, however the ongoing strength of the US labour market presents a challenge for the Federal Reserve as they navigate the delicate balance between leaving policy too restrictive for too long, risking recession and easing policy too soon, risking a second round of inflation.

Economic activity is broadening as data from the UK and Europe continues to positively surprise. From a True Potential Portfolio perspective, a key development over the quarter has been an upgrade to our outlook for UK equities. UK economic data has improved, headline inflation is back to target, earnings expectations are rising and the UK equity market is attractively valued on a 20 year historic basis. Therefore, both True Potential and our fund manager partners have been adding UK assets.

Over the quarter, fund manager allocation changes were made within the core, + and income Portfolios.

We increased Schroders in the Cautious, Balanced and Balanced + Portfolios as the manager offers diversification in both their view and positioning, evidenced by their low correlation to other managers. Schroders also has a higher allocation in UK equities which allowed us to increase our home equity exposure and lower the valuation of our global equity book. We also increased Schroders within the Cautious Income Portfolio, funded from Waverton. This reduced exposure to rate sensitive real assets held within the Portfolio. Schroders allocation in the + Portfolio range has also been increased over the quarter for the reasons stated above.

As always, investment activity continues at fund level below the headline Portfolios. Allianz, Pictet and UBS added to UK equities given an improved outlook for the asset class with our own Growth Aligned investment team introducing a new active UK fund with a strong stock picking track record. Elsewhere, managers have added further to cyclical and commodity positions. Allianz, for example, increased their exposure to commodities.

Away from equity markets, managers including Pictet and 7IM continue to build exposure to high yield bonds, an asset class we are positive on and expect to perform well in a reflation regime. Managers have also been adding to sovereign bonds, including UBS building exposure to 10 to 20 year German, Australian and US sovereign bonds.

**In summary, our 'global optimism' theme remains highly supportive for the future returns for True Potential clients invested in our multi-asset Portfolios.**

# Why cash is *no longer* king and tech is taking off.

**+ In June, the Bank of England began to issue banknotes that featured King Charles III's portrait for the first time. The King now graces all four 'paper' denominations: £5, £10, £20 and £50. But it wouldn't be a surprise if you haven't actually seen one of these notes yet.**

That's because cash is an increasingly rare component of our everyday lives. You'll doubtless have spent a fair bit of money since the new banknotes entered circulation on 5 June, but you may well have handed over little or none of it in notes or coins rather than making digital transactions.

For many of us, the prospect of finding the exact change for a bus fare is now a fading memory. Why scrabble for coins when you can just tap your card? And if you have older children, you'll have found that top-up smartcards are increasingly essential for paying them their pocket money: many of the burger joints and cafés that teenagers like to frequent won't even accept cash any more.

So, while the King is now on our cash, cash is no longer king.

### How cashlessness caught on during Covid.

The trend towards a cashless society was massively accelerated by Covid-19. Remember all that focus on handwashing in the early stages of the pandemic? Cashless transactions boomed in response: they were quicker and cut out physical contact. Many shops began to accept transactions without stipulating a minimum value as they had before, and banks raised the upper limit on contactless transactions.

According to the Bank of England, cash transactions fell from more than 50% of the UK total in 2010 to just 17% in 2020 – when the first wave of Covid was at its height.[1] Although there was a slight recovery in cash transactions in 2021 as lockdown restrictions were relaxed, the most recent payments report from UK Finance shows that cash transactions fell further in 2022, to 14% of the total.[2]

It's unlikely that cash transactions will hit zero any time soon. There are still plenty of people who don't have bank accounts and rely on ready cash. But with "digital wallets" accounting for a growing share of transactions and offering alternatives to bank accounts, the direction of travel is clear.

### Playing catch-up.

This isn't just a UK trend, of course, or even a Western one; many emerging markets have been well ahead of the game. Smartphone-based transactions were the norm in China and other parts of Asia long before Covid, even for very small transactions.

So with the growing adoption of technologies like ApplePay and other digital wallets, the West is just catching up with the likes of AliPay and WeChat Pay. Meanwhile, China has taken the lead in full-blown digital currency through its introduction of the e-yuan, which has the potential to revolutionise cross-border trade.

### Innovations of our own.

But there's plenty of innovation close to home too. At True Potential, we've been alert to the potential of digital transactions for quite some time. That's one reason we launched impulseSave® in back 2014. Users of impulseSave® can make instant additions to their investment Portfolios – in amounts as small as £1. Since its launch, over £1 billion has been invested through impulseSave® – with half of all top-up amounts being under £100. Essentially, we've harnessed the psychological kick of the impulse purchase and diverted it towards saving and investment.

The impulseSave® ecosystem that we've developed through the True Potential Platform combines this digital convenience with a whole suite of applications that help to keep investors on track towards their long-term goals.

### AI and the digital future.

Currently, our focus on innovation is prompting us to adopt artificial intelligence (AI) as a growing part of our platform. But we're not replacing our people with it. Instead, we're using AI to offer better value to our clients and enhance the workplace experience for our employees. By freeing advisers from those tasks that can be handled efficiently by machines, we're allowing them to concentrate on delivering the very best service to clients.

We're keen to keep at the forefront of financial technology as we build on powerful innovations like impulseSave® through AI and other cutting-edge technology. The True Potential Platform will continue to evolve as we move forward into an increasingly cashless era.

That brings us back to King Charles and the new banknotes. We're not saying that these notes are already museum pieces. Their issuance marks a historic moment for the UK and the continuation of an important tradition. But with digital payments on the rise and financial innovations coming thick and fast, banknotes are fast becoming footnotes in the history of money.

Sources:
[1] Bank of England, December 2021
[2] UK Finance, September 2023

# A guide to passing on property.

**According to recent HMRC data, fewer than 4% of deaths resulted in Inheritance Tax (IHT) being paid. However, this figure is projected to rise to over 7%, affecting more than 50,000 people annually in the next decade.[1]**

As such, it is crucial to consider how to pass on property to the next generation in a tax-efficient manner. So crucial in fact, that it is a topic we cover regularly on our Do More With Your Money Podcast, which you can subscribe to on True Potential's YouTube channel.

### Understanding Inheritance Tax.[2]

The amount of property you can transfer tax-free depends on the recipient, the timing of your death, and the overall value of your estate. Those inheriting property must consider several factors, including the probate process and decisions regarding the property's future use.

Inheritance Tax (IHT) is levied on the estate of a deceased person, encompassing property, possessions and money. Generally, no IHT is due if:

- The estate's value is below the £325,000 Nil-Rate Band threshold.
- The excess above £325,000 is left to a spouse, civil partner, charity, or community amateur sports club.

## 4.0%

Fewer than 4% of deaths resulted in Inheritance Tax (IHT) being paid.

Source: HMRC, 2023.

### IHT Thresholds and Rates for 2024-25.[2]

The IHT rate is 40%. The previous government announced that the Nil-Rate Band would remain at £325,000 until 2027/2028. However, having pledged not to raise income tax, national insurance or VAT, the new government may look at IHT to raise more revenue. Currently, the 'residence nil-rate band' (RNRB) offers an extra tax-free allowance of up to £175,000 when residential property is left to direct descendants. Combining these allowances results in a potential tax-free threshold of up to £500,000 per individual or £1 million for married couples or civil partners. However, IHT may still be applicable upon the second death.

### IHT on Property Transfer.[2]

No IHT is due when a home is passed to a spouse or civil partner. If left to another person, the property value is included in the estate, and IHT must be paid within six months of death to avoid interest charges. It is advisable to seek independent legal advice.

### Your tax-free threshold can increase to £500,000 if:[2]

- The property is left to children (including adopted, foster, or stepchildren) or grandchildren.
- The estate is valued under £2 million.

### The Seven-Year Rule for IHT.[2]

The seven-year rule applies if property is gifted before death. No IHT is due on gifts if you survive seven years post-transfer unless the gift is part of a trust. To continue living in the gifted property, you must:

- Pay rent at market rate to the new owner.
- Share bill payments.
- Live there for at least seven years.

Failure to meet these conditions makes it a 'gift with reservation,' included in the estate's value upon death.

### Probate and Inherited Property.[2]

If you have a will, named executors will manage estate distribution. Probate may not always be required, but if necessary, inheritors can only decide on the property after probate completion and official transfer. Independent legal advice is recommended to make informed decisions.

### Downsizing relief.[2]

Homeowners can use the proceeds from selling a larger home to buy a smaller one or to move into care, without losing the additional main residence nil-rate band (RNRB) inheritance tax allowance.

Even if a person sells their main residence, they can still apply the RNRB to their estate, provided that the proceeds from the sale are part of their estate on death. This ensures that their beneficiaries can benefit from the same tax-free threshold as if the larger property had been retained.

Downsizing can release funds that may be used to support retirement or other financial needs, while still ensuring that a significant portion of the estate remains sheltered from inheritance tax through the RNRB.

To qualify, certain conditions must be met including the remaining estate being passed on to direct descendants (children or grandchildren).

### Maximising Wealth Transfer.

Careful planning is essential to ensure beneficiaries gain as much as possible in a tax-efficient manner. True Potential Wealth Management clients can discuss tax implications of property transfer with our financial advisers or call the Relationship Management Team at 0191 500 9164 (available 7am-8pm on weekdays and 8am-12pm on Saturdays). Non-clients can call 0191 625 0350 for more information. Alternatively, you can visit MoneyHelper.org.uk.

Sources:
[1] Institute for Fiscal Studies, 2023
[2] Gov.uk, 2024

Scan and subscribe to the Do More With Your Money Show.

# Taking sustainability seriously.

**+ As we move from record-breaking floods to the summer heatwave that's been scorching mainland Europe, reminders of our changing climate are all around us. This underscores the importance of considering sustainability in everything we do.**

At True Potential, we take sustainability seriously. It is a crucial consideration in our investment strategies and at the same time, there are increasing regulatory requirements across the globe. One aspect of this regulation is the recent requirement that UK-based investment firms conform with the reporting standards set out by the Task Force on Climate-related Financial Disclosures (TCFD) – a body established by the G20's Financial Stability Board to improve transparency on climate issues.

## Our first TCFD report.

In line with these requirements, we've published our first TCFD report this year, alongside our regular sustainability report. This report sets out what we do as a business, including information on carbon emissions and other climate impacts, both in our own operations and in those of our funds.

As you'll read in the report, the TCFD framework consists of 11 disclosures around four key "pillars": governance, strategy, risk management and metrics & targets.

Besides making these disclosures, we've engaged MSCI, a world leader in data and research services, to provide us with climate-related risk metrics for each of the True Potential funds. These help us to evaluate their environmental impact and the price adjustments that could occur in different climate scenarios.

All in all, the TCFD report gives stakeholders a better understanding of assets with significant exposure to climate-related risks. This should facilitate the transition to a more sustainable, lower-carbon economy – boosting resilience to these challenges.

## An evolving approach.

Although our TCFD report is new, it builds on our long-standing commitment to environmental, social and governance (ESG) issues. We analyse a range of sustainability factors through our investment framework, which we apply both to our fund manager partners and the investment products that they use in our funds. As these issues are evolving so fast, we review our framework every year. In 2023, we increased the level of detail in the questionnaires that we send to our fund manager partners, as well as adding a dedicated section on climate and expanding the section on stewardship. These changes have helped to improve our confidence in the findings.

Our fund manager partners have also continued to evolve their ESG practices. For example, Allianz has been developing its in-house platform for sustainability data. The output of this platform is now integral to our Allianz funds. Allianz has also been switching some of its exposure from traditional exchange-traded funds (ETFs) to ESG-screened products. These currently account for 10–15% of the True Potential Allianz funds.

Meanwhile, the True Potential Growth-Aligned Fund has switched to an ESG-aligned ETF for its exposure to US high-yield bonds. This tracker fund has similar risk and return characteristics to the ETF it replaced but offers a greater focus on sustainability factors.

## Our ESG impact.

Oversight of our funds covers much of the governance in ESG, but as a large and fast-growing business, we're always aware of the environment – including our own impact on it. That's why we've worked to reduce gas usage by 70% in the past year, while cutting electricity usage by 10% – all despite an increase in our client facing staff headcount. However, we know that there's still much more to do, and we're always looking for further improvements.

Our ESG commitment also includes the S: social. A key part of this is the contribution we make to our local community. This includes our commitment to social mobility as the founding partner and one of the first signatories of the national Social Mobility Pledge; our funding of the six Harrison Centres for Social Mobility; and our True Potential Training Academy, which aims to enhance the career prospects of our employees by supporting them as they study for further qualifications.

## Our commitment to charity.

We also work with our charity partner, the Harrison Foundation, to support a range of projects in the UK and abroad. Based in the North East near us, the Harrison Foundation is also a shareholder in True Potential. So, as we grow as a company, our support for charity does too.

However, that's not all we do. Each month, we adopt a charity put forward by one of our employees – perhaps a cause that they're connected to personally or just one that they feel needs our support. To support these causes, we run several monthly fundraising events, delivering thousands of pounds to each charity as a result. Together with the Harrison Foundation, True Potential donated over £1 million to charities in 2023. These included the Sunshine Fund, The Charlie and Carter Foundation and St Andrew's Hospice.

## Building a better future.

We hope that you'll read our sustainability report and our TCFD reports - they can be found at truepotential.co.uk. We believe that these documents underscore True Potential's commitment to sustainability. Ultimately, this commitment is integral to our business. Saving and sustainability go hand in hand – both are about creating a better future for all.

**70%**

We've reduced gas usage by 70% in the past year.

**10%**

We've cut our electricity usage by 10% in the past year.

# Five year performance.

| Portfolios | 30 Jun 2019 to 30 Jun 2020 | 30 Jun 2020 to 30 Jun 2021 | 30 Jun 2021 to 30 Jun 2022 | 30 Jun 2022 to 30 Jun 2023 | 30 Jun 2023 to 30 Jun 2024 | Since launch annualised (1 Oct 2015) |
|---|---|---|---|---|---|---|
| Defensive | +0.81% | +5.32% | -5.32% | -0.70% | +6.52% | **+2.39%** |
| Cautious | +0.29% | +10.77% | -6.61% | +0.87% | +8.69% | **+3.88%** |
| Cautious + | -0.64% | +11.91% | -6.98% | +1.59% | +9.36% | **+4.08%** |
| Cautious Income | -2.69% | +14.60% | -4.05% | +0.47% | +10.20% | **+4.62%** |
| Balanced | -1.28% | +15.68% | -7.70% | +2.79% | +10.64% | **+5.31%** |
| Balanced + | -0.69% | +15.51% | -7.08% | +3.00% | +11.24% | **+5.86%** |
| Balanced Income | -3.71% | +16.47% | -5.22% | +1.97% | +11.56% | **+5.20%** |
| Growth | -1.26% | +19.23% | -7.10% | +4.46% | +12.52% | **+7.03%** |
| Growth + | -2.93% | +20.59% | -7.39% | +4.63% | +14.01% | **+7.13%** |
| Aggressive | -3.09% | +23.58% | -6.34% | +5.33% | +15.01% | **+8.19%** |

Source: True Potential Investments, data as of 30 June 2024.
Figures shown after Ongoing Charges Figure (OCF) has been deducted.

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