

Sustainable Managed Portfolio Service

Quarterly report – Q1 2025



Brewin
Dolphin

Introduction

Welcome to the RBC Brewin Dolphin Sustainable Managed Portfolio Service (SMPS) investment review. In this report, we cover information and events that influenced performance during the first quarter of 2025.

The first quarter of 2025 has been dramatic – and U.S. President Donald Trump was at the centre of the drama. During his first term, the president’s business-friendly actions (deregulation and tax cuts) outweighed his antagonistic actions (tariffs that were narrow in scope), but in this second term, these less favourable elements of his agenda are taking precedence.

The Trump administration’s tariff policy has taken several, often last-minute, turns. Over the first week of the president’s second term, tariffs were announced and then delayed at the eleventh hour, or announced and then adjusted within days. President Trump also imposed tariffs on steel, aluminium, cars, and car parts. This all took place while the threat of a bigger announcement loomed – what President Trump called ‘Liberation Day’.

On ‘Liberation Day’ (2 April), President Trump announced what he termed reciprocal measures based upon a list of perceived and real grievances detailed in an extensive report by the United States Trade Representative. The administration concluded that every country in the world unfairly penalises the U.S. enough to warrant a 10% tariff on exports. 60 countries warranted higher tariffs, most of which are small Asian and emerging economies. Japan, Switzerland and the European Union, however, were all charged high tariff rates, reflecting the frictions they impose on imports from America.

The economic impact from these measures should be severe, reducing economic growth and increasing costs for the U.S. and its trading partners. Retaliatory measures from other countries, such as China’s additional 34% tariff on U.S. imports, will only intensify this pain.

At February’s Munich Security Conference, U.S. Vice President J.D. Vance laid out the U.S. position that European states should contribute more towards Ukraine’s defence. The implications were significant. They accelerated a rapidly evolving attitude towards military spending in Europe.

The new UK government has struggled to make a positive impact economically, inheriting a difficult economic hand from its predecessor and focusing on taxing, spending and borrowing in the 2024 Autumn Budget.

In the Spring Statement, Chancellor Rachel Reeves updated parliament on the public finances relative to her self-imposed fiscal rules. Weaker growth and higher interest rates mean she was on track to break them, but welfare reforms, efficiency measures and some accounting nuance has put her back on track.

The big picture in Q1 2025

- 2025 hasn't had the best start from a climate change perspective. The U.S. is the world's largest carbon emitter, and the new administration has made it very clear that it's prioritising continued fossil fuel development rather than renewables. The most significant announcements so far have been pausing disbursements from former President Joe Biden's industrial policies and announcing support for the Keystone XL pipeline.
- Another significant political shift was on diversity, and we've seen companies removing DEI (diversity, equity and inclusion) language. According to reports, General Motors, Meta and Google have announced rolling back their DEI initiatives all together in fear of legal challenges.
- The litigation has begun, with the state of Missouri suing Starbucks over its diversity programmes, alleging the chain's push to hire and promote more people of colour and women violated anti-discrimination laws. Target was also sued for allegedly concealing the risks of its DEI initiatives.
- In more positive news, farmers continue to adopt sustainable practices, particularly crop rotation and no-tillage methods (the latter involves growing crops without disturbing the soil through conventional tillage methods). According to McKinsey, nearly 68% of farmers use sustainable practices and 30% also use bio nutrients for soil quality and health. The top driver for adoption of sustainable practices in North America is increased yield; in Europe, it's additional revenue streams. About 90% of farmers expect to maintain or increase spending on bio-based products.

Market overview Q1 2025

- The first quarter of 2025 saw varied performance across different asset classes.
- In equity markets, Developed Europe ex UK and Emerging markets delivered strong returns of 7.3% and 4.7%, respectively, with the UK equity market also returning 4.5%. North America and Japan underperformed with returns of -7% and -2%, respectively.
- In the alternatives space, gold stood out with a notable return of almost 16%, significantly outperforming other sub-asset classes. In contrast, absolute return and commercial property returned around 1% each.
- In the bonds category, Global Inflation Linked and Global Corporate Bonds performed relatively well, with returns of 2% and 1.8%, respectively. However, UK Sovereign Bonds and UK Corporate Bonds had more muted returns of 0.5% each.
- Overall, the diverse performance across sub-asset classes highlights the importance of a well-diversified portfolio.
- The imposition of tariffs on various goods – including steel, aluminium, cars, and car parts – has created tension and uncertainty in the market. The tariffs, which were announced on what President Trump termed ‘Liberation Day’, could have a severe economic impact, reducing growth and increasing costs for the U.S. and its trading partners.
- The administration’s approach to trade policy has been aggressive, with the aim of reducing trade deficits, but this has been met with retaliatory measures from other countries. The economic impact of these measures is likely to be significant, and it’s expected that the tariffs will be eased over time as President Trump seeks to negotiate concessions.
- In contrast to the U.S., Germany has taken a more business-friendly approach, with the newly elected government, led by Friedrich Merz, reforming the country’s constitutional debt brake to exempt defence spending exceeding 1% of gross domestic product (GDP). This move is seen as a response to the evolving attitude towards military spending in Europe, which has been driven by the U.S. administration’s focus on reducing trade deficits, and the potential loss of American support in combating threats on Europe’s borders. The German government has also agreed to create a special €500 billion fund for investments in infrastructure and climate neutrality, which is seen as a positive move for the economy.
- Despite the challenging environment, European equities have preserved value better than their U.S. counterparts, driven by the perception that the U.S. administration’s policies will have a greater negative impact on the American economy. The decision by the U.S. to fight on multiple trade fronts is seen as strategically naive, and the weakening of Europe’s alliance with America has prompted the region to address domestic challenges.

The value of investments, and any income from them, can fall and you may get back less than you invested.

Sustainable MPS performance highlights Q1 2025



Asset allocation

What worked and why?

The portfolios' overweight position in inflation-linked bonds, which are held as a substitute for gold in sustainable portfolios, was the most significant positive contributor to performance during the first quarter.

What didn't work and why?

European ex-UK equities have been the best performers during the quarter, while the North America equity region has suffered the most from the market rotation. In recent years, U.S. equities have been the major driver of returns. But this quarter, the overweight to North America and the underweight to Europe ex UK have negatively impacted performance.

Fund selection

What worked and why?

The first quarter of 2025 saw a major rotation in markets, with value stocks taking the lead in the uncertain environment generated by tariffs. European stocks also received a boost in anticipation of a huge increase in German defence spending. Our holding in Schroder Global Sustainable Value is the fund most exposed to European value stocks; consequently, it was the stand-out contributor over the period. Evenlode Global Income was also a positive for portfolio returns.

What didn't work and why?

In a reversal of the previous quarter, growth stocks saw a sharp correction as the market became increasingly concerned about the unpredictable policymaking in the U.S., which might hamper growth in the economy. This meant U.S. growth funds fared poorly. In particular, Liontrust US Sustainable Future and Brown Advisory US Sustainable Growth were significant detractors.

The value of investments can fall and you may get back less than you invested.

Sustainable MPS portfolio changes Q1 2025

Asset allocation

At the beginning of Q1, there was a change to the strategic asset allocation benchmarks. Following the latest review by our Asset Allocation Committee, the allocation to UK equities in the highest risk profile was reduced by 2.5%, while the allocation to overseas equities was increased by the same amount, thereby providing a better balance of prospective risk and reward. In lower risk profiles, the change is less marked.

The Asset Allocation Committee has started the year maintaining its tactical underweight to European equities, while keeping an overweight to North America, as the U.S. economy shows more resilient fundamentals. The Committee decided to retain its overweight stance on sovereign bonds, citing their potential for upside in the event of economic weakness.

There were no changes in February. In March, the Asset Allocation Committee reduced the overweight to U.S. equities and increased European equities, as the extent of the proposed tariffs became more real. The increase in European equities followed Germany's announcements on defence spending, which markets received favourably.

Following a very positive run, gold was reduced, and cash was increased.

Fund selection

In January, we reduced exposure to UK equity funds and added exposure to overseas funds across the MPS ranges, in line with changes to the strategic asset allocation benchmarks.

In March, following a period of strong performance, a reduction to gold was made in the MI Select Managers Alternatives fund, while the allocation to the BlackRock Sterling Liquidity fund was increased. The MI Select Managers North America was reduced, while the Blackrock Continental European and the Blackrock European Dynamic funds were increased.

SMPS performance

SMPS performance (%)								
	Q1	2025 YTD	1yr	2yr	3yr	2024	2023	2022
Income Portfolio	-1.9	-1.9	0.2	7.1	2.7	4.4	7.5	-11.7
Income Higher Equity Portfolio	-2.7	-2.7	-0.6	7.2	3.9	5.1	8.3	-11.7
Balanced Portfolio	-3.3	-3.3	-1.4	6.8	4.4	5.4	8.5	-11.5
Growth Portfolio	-4.3	-4.3	-2.2	7.2	5.7	6.4	9.4	-11.6
Global Equity Portfolio	-5.4	-5.4	-3.2	8.0	7.7	7.8	10.7	-11.7

All figures shown above are calculated to 31 March 2025. Inception date: 26 April 2021

Performance Calculation: All income is reinvested. Performance is shown inclusive of underlying fund charges but gross of RBC Brewin Dolphin's investment management charge. Deduction of this charge will have the result of reducing the illustrated performance. Neither simulated nor actual past performance are reliable indicators of future performance.

Funds in focus Q1 2025

BlueBay Impact Aligned Bond

BlueBay Impact Aligned Bond fund is our core global fixed income strategy with a dual objective to outperform global corporate bond markets, and to positively contribute to environmental and social challenges. It's managed by Tom Moulds, the Lead Portfolio Manager, and My Linh Ngo, Impact Aligned Strategist, who are supported by two experienced portfolio managers and a five-person strong Fixed Income Responsible Investment team.

The team targets seven sustainability themes:

- achieving an inclusive society
- building knowledge and skills
- ensuring good health, safety and well-being
- enabling a circular economy
- ensuring clean and plentiful water
- promoting clean and safe energy; and
- promoting sustainable mobility and infrastructure.

Impact investing is based on the “additionality” concept. In simple terms, it defines an increase in social or environmental benefits that can be directly attributable to investment, e.g. funding a social housing project by providing a loan.

In public markets, where investments are made through equity or bonds, direct funding isn't usually possible. While the team can't directly fund a project as bond investors, it can engage with the company management to encourage it to address and appropriately fund social or environmental challenges. Therefore, the team uses the term ‘impact aligned’ instead of ‘impact’ to describe its approach more accurately.

The team believes investing in public markets can still deliver ‘impact’ by directing investments to ‘good players’, effectively providing them with capital to achieve positive environmental or social outcomes.

In addition, the team can also have influence through engagements, which it leverages to gather additional insights into the issuer's environmental, social and governance (ESG) practices, or to facilitate change by setting out a request for improvement in specific ESG areas.

The team implements a comprehensive sustainability framework throughout the investment process. This allows it to integrate macro, credit, ESG and impact-aligned research in a way as to capture alpha-generating ideas that also positively contribute to the fund's sustainable goals.

The process starts with negative screening, by excluding issuers due to their involvement in controversial activities or poor ESG conduct. The next step is focused on assessing each investment by using a proprietary sustainability qualification framework. The first line of enquiry is focused on what the core business activity of a company is for corporate issuers, or what activity or project a specific bond finances.

All investments must have an activity/project that aligns with BlueBay's sustainability themes, and all issuers must meet minimum requirement for ESG conduct. Alignment of the issuer economic activity is assessed using a range of positive materiality indicators, such as revenues, profits, and market share.

After this, the filtered universe is researched by fundamental credit analysts' team to identify candidates for portfolio inclusion. This process flow ensures that every single investment is fully and properly vetted from ESG and impact-aligned angles before being considered from an investment perspective

Shakhista Mukhamedova

Head of Global Manager Research Europe

Funds in focus Q1 2025 continued

The Royal London Sustainable Leaders Trust

The Royal London Sustainable Leaders Trust is our primary UK large cap growth offering on our Socially Responsible Investment (SRI) buy list. Fund manager Mike Fox and his team aim at finding the most attractive companies from a sustainability and financial standpoint, as the team believes these companies can offer high and more durable long-term growth as well as being more resilient.

ESG analysis is at the core of the strategy investment process. The fund looks for companies that are ESG leaders in their field by providing cleaner, safer, and healthier products and/or services to address key challenges and that are therefore helping in transitioning to a more sustainable world.

Once the ESG analysis is performed, the team moves on to companies' financial evaluation, looking for businesses providing higher returns on capital and delivering a sustainable growth rate at a reasonable price.

Using a scorecard that considers both sustainable and financial factors, they construct the portfolio by allocating 10% to those rare companies that score highly across all measures, with higher weights to each of these companies. 30% of the portfolio is invested in mid-tier scoring companies with 1-3% invested in each, and the remaining 60% is allocated to lower-tier companies with weights of 0-1% each to compensate for the higher risk of lower financial or sustainability scores.

The resulting portfolio has around 40 to 50 companies with 10-15% in overseas names. The fund is naturally overweight healthcare and innovative industrials while it has no mining or oil and gas.

Over the past two years, Fox and his team, acknowledging the regime shift that took place in financial markets following the Covid-19 pandemic, have increased their exposure to interest rate sensitive areas of the market, mainly financials.

We think Royal London has a particular edge in ESG analysis and sustainable investing. This view is supported by the manager having one of the longest track records (since 2003) in sustainable investing.

Fiammetta Valentini

Analyst

Sustainable MPS Income

31 March 2025

Carbon intensity

Carbon Intensity measures a portfolio's exposure to carbon intensive businesses and is a recommended metric for assessing Carbon Risk by the Task Force on Climate Related Financial Disclosures (TCFD). It is calculated as a weighted average of each portfolio companies total Scope 1¹ and Scope 2² Carbon Emissions divided by their annual Sales, with a lower score representing less (better) Carbon Intensity.

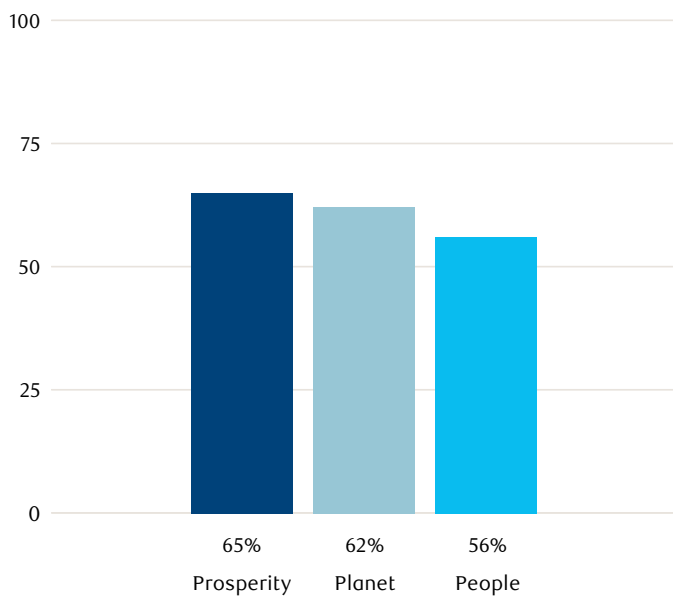
Comparisons of Carbon Intensity figures should be made with caution, as generally companies in the sectors with the highest Carbon Emissions (such as Utilities) also have the highest potential for reducing their Carbon Emissions. We believe it is important to encourage these reductions in carbon emissions where they have the potential for highest impact.

References:

¹ Scope 1: All direct GHG emissions from sources owned or controlled by the company (e.g. emissions from combustion in owned boilers, furnaces).

² Scope 2: Indirect GHG emissions that occur from the generation of purchased electricity, steam or heat consumed by the company. Benchmark for comparison: 45% Global equity, 55% Global aggregate bonds.

SDG alignment

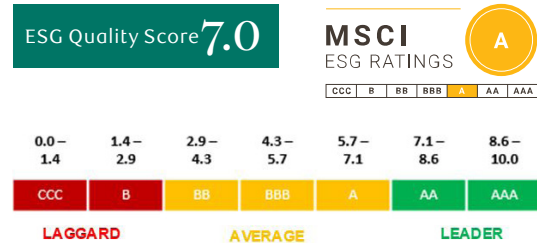


The UN SDG Alignment provides a framework for considering a broad set of seventeen sustainability issues. Although not intended for investment purposes, it provides a useful context for measuring a portfolio's alignment with these goals.

We select 12 of these SDGs and place them into three sustainability themes: People, Planet, and Prosperity, with each sustainability theme consisting of four SDG goals. We use fund alignment data from MSCI to measure the alignment of the portfolio to each of our three sustainability themes. To calculate this, we take a weighted average of each fund's alignment to each of the three sustainability themes.

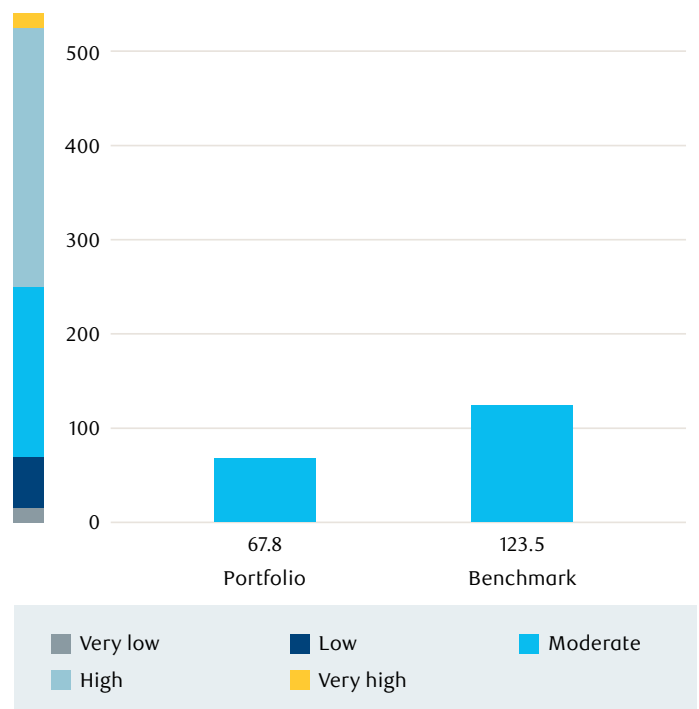
For instance, if Fund A is a 10% holding in the portfolio, and within the People theme is aligned with both "Zero Hunger" and "Gender Equality" but not the other two SDGs, then the fund will contribute 5% to the overall score of the People theme: 2.5% through Gender Equality and 2.5% through "Zero Hunger".

MSCI ESG ratings



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Carbon intensity vs benchmark (TCO₂e / \$m sales)



Prosperity



Planet



People



Sustainable MPS Income Higher Equity 31 March 2025

Carbon intensity

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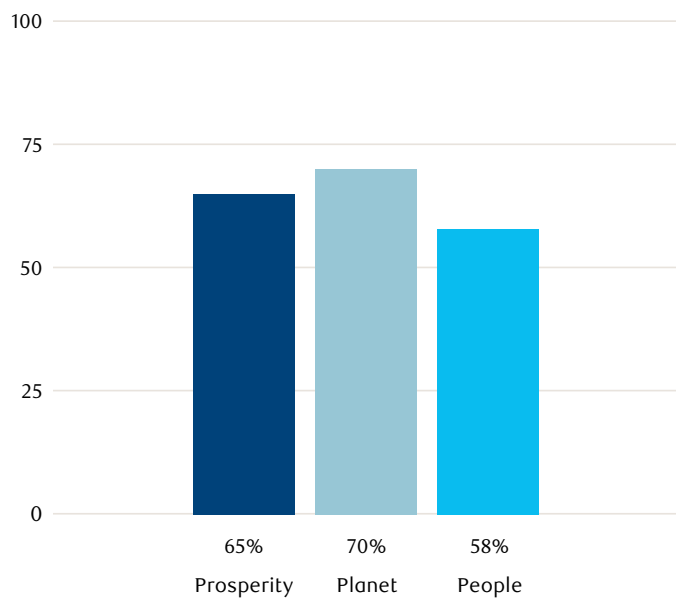
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SDG alignment

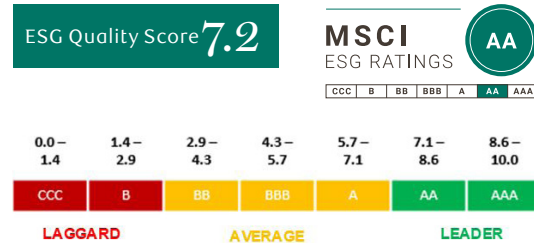


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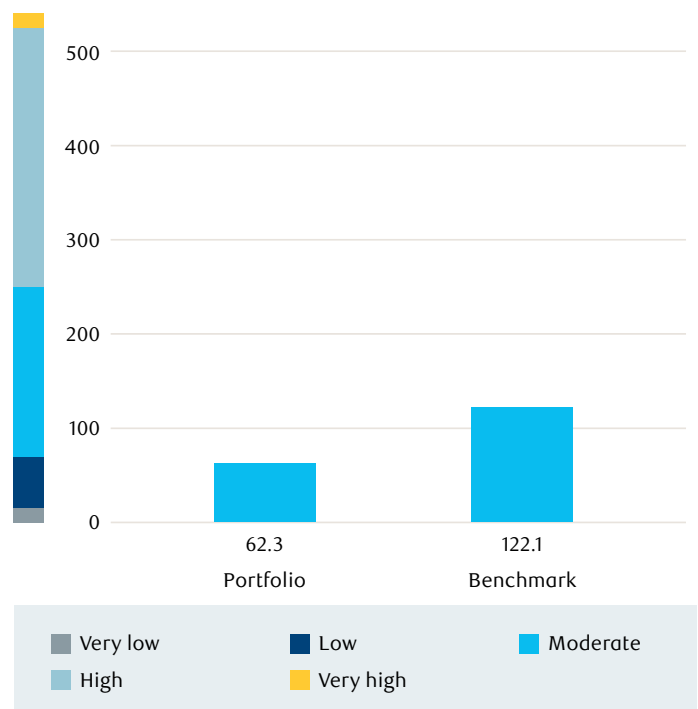
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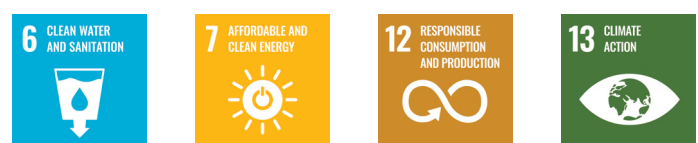
Carbon intensity vs benchmark (TCO₂e / \$m sales)



Prosperity



Planet



People



Sustainable MPS Balanced

31 March 2025

Carbon intensity

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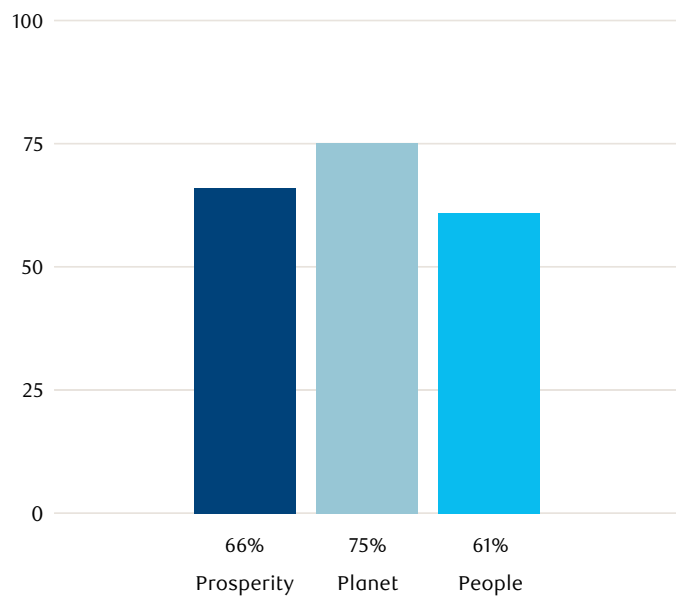
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SDG alignment

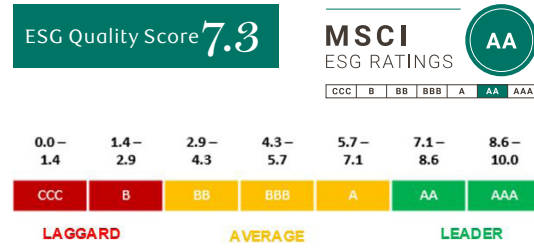


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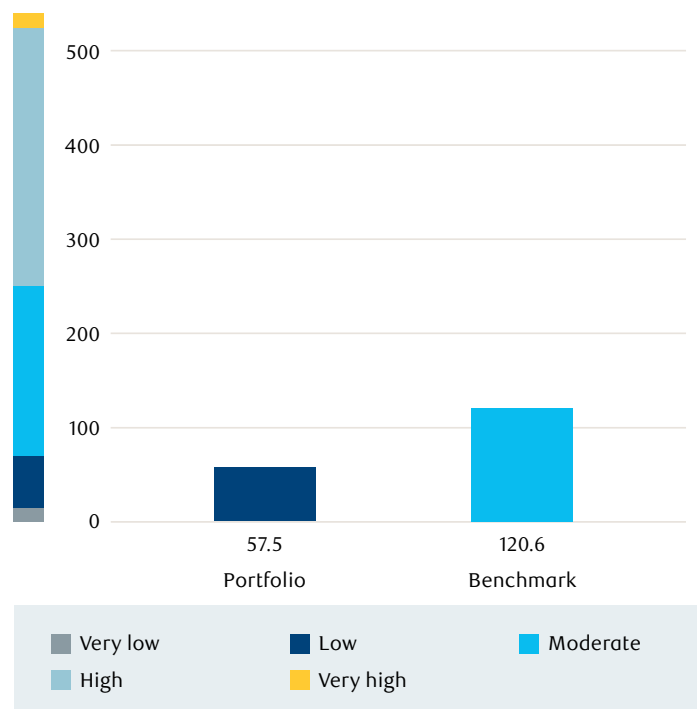
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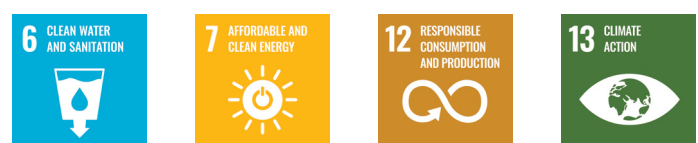
Carbon intensity vs benchmark (TCO₂e / \$m sales)



Prosperity



Planet



People



Sustainable MPS Growth

31 March 2025

Carbon intensity

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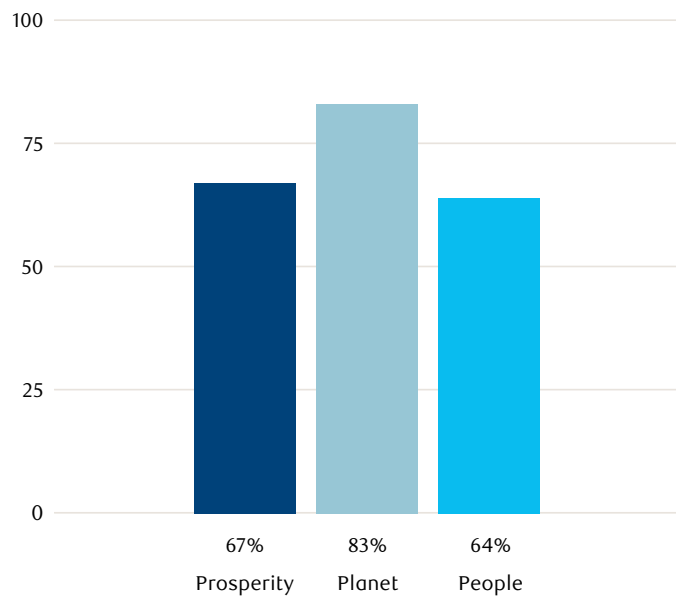
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SDG alignment

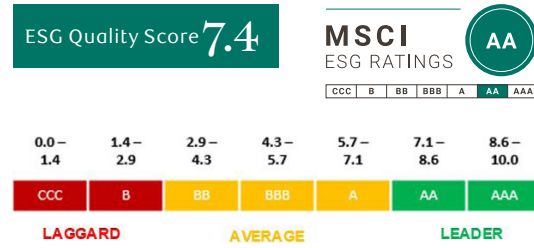


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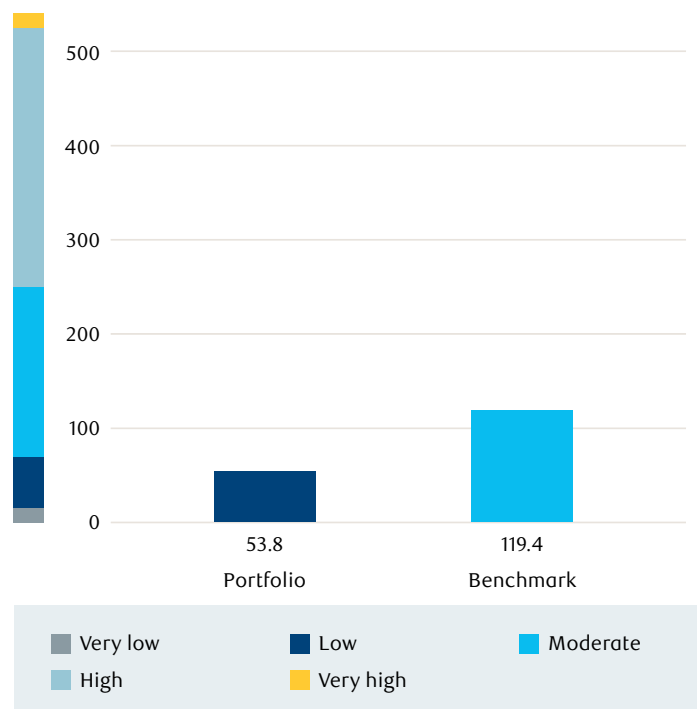
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Carbon intensity vs benchmark (TCO₂e / \$m sales)



Prosperity



Planet



People



Sustainable MPS Global Equity

31 March 2025

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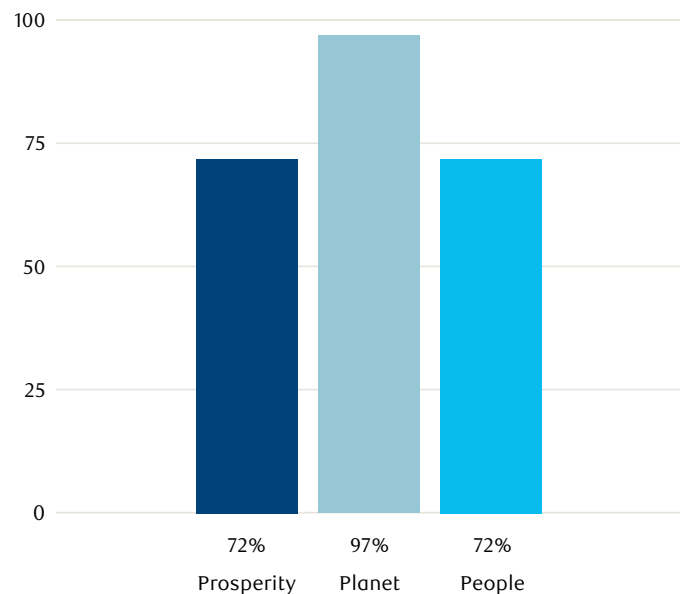
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Benchmark for comparison: 100% Global equity.

SDG alignment

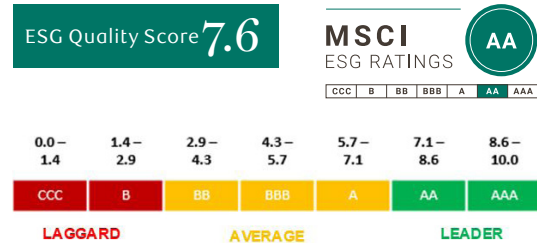


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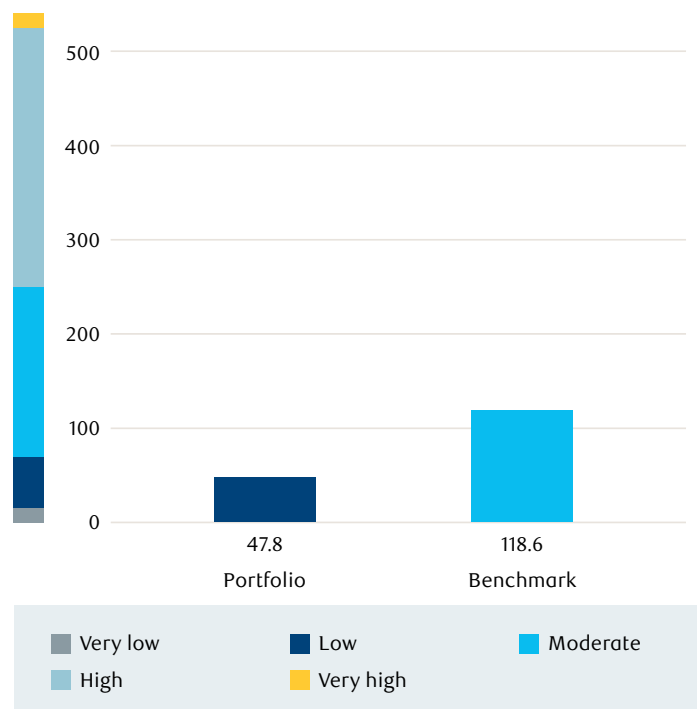
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Carbon intensity vs benchmark (TCO₂e / \$m sales)



Prosperity



Planet



People



Asset Allocation Committee investment outlook

These views are implemented across our portfolios but there may be deviations where asset classes or suitable investments are unavailable or excluded.

Cash

We hold a small overweight in cash. This provides some ammunition we can deploy when the outlook for other typically higher-yielding asset classes improves.

Bonds

Our base case view is that safe haven bond yields will move in a trading range in the quarters ahead. This largely explains why we have a neutral position in the bonds asset class. Within bonds, we are overweight government bonds, and underweight corporates. The yield differential between corporate and government bonds remains tight, and spreads are vulnerable to widening if economic growth comes in weaker than expected. The reality is that recessions are often unpredictable; five of the eight recessions the U.S. has seen since 1970 were caused by shocks. Government bonds would very likely outperform corporate bonds if a negative shock to growth were to materialise. With spreads tight, and given our desire to stick with a small equity overweight, our bond positioning acts as a partial hedge against this risk.

Global Equities

We expect the global economy to continue to expand, which is consistent with corporate profits going up. We also believe there's the potential for artificial intelligence (AI) themes to drive both strong economy-wide productivity and continued solid profit gains among the pick and shovel plays (strategies to invest in companies that provide necessary equipment for an industry). However, we believe only a small equity overweight is appropriate. For one, there's limited room for cyclical economic growth. With most economies close to full employment and labour force participation high, there isn't much scope for workers on the sidelines to get a job, earn an income, and increase aggregate consumption. Meanwhile, U.S. President Trump's immigration policies are likely to weigh on labour force growth. Further, U.S. equity valuations are unappealing. Valuations don't work as a good predictor of medium-term returns, but eventually the medium term becomes the long term. Finally, trade uncertainty is very high, and surveys indicate there's a dearth of cash on the sidelines available to buy the recent dip in equities.

Alternatives

Following the recent strong rally in gold, we've taken some profits on our overweight position. Importantly, if our base case economic outlook plays out, we see limited scope for real bond yields – an important macro driver of gold – to decline. However, we retain a small overweight. With the world becoming increasingly multipolar, we expect central banks to continue to diversify their reserve holdings out of the U.S. dollar and other developed world currencies. Gold is also likely to act as a good hedge in the event that two risks materialise. If a full-blown global trade war occurs, real yields would likely drop and inflation rise – a great backdrop for gold. The other, longer-term risk is if inflation comes in persistently above expectations due to factors like de-globalisation, a changing age structure of society (that means fewer workers relative to consumers, resulting in strong wage growth), and persistently high government deficits.

UK Equities

UK relative performance should continue to be closely linked to global value vs growth style performance. Notwithstanding the recent surge in value-style relative performance, there are reasons to believe the outlook for the growth style remains brighter. However, some diversification into the value plays that the UK is so heavily weighted in makes sense at this stage, in our view. Although the domestic economic outlook is less important for UK equity relative performance given its high international exposure, it still matters. Indeed, there's a positive relationship between the performance of UK vs global GDP and UK vs global equity performance. We continue to believe the pessimism surrounding the UK economy is overdone. The UK equity market also trades on very undemanding valuation multiples.

U.S. Equities


With Trump waging a trade war against the entire world concurrently (although very recently re-focusing on China), and with many countries ready to retaliate, our sense is that the trade tensions will do more damage to the U.S. than the rest of the world. For this reason and others – including President Trump's immigration stance, stretched valuation multiples and a still richly valued U.S. dollar – we've trimmed the size of our U.S. overweight. Nevertheless, we retain a small U.S. overweight. We expect the U.S. to maintain its productivity advantage vs most of the rest of the developed world. Moreover, the secular outlook appears relatively bright for the tech stocks the U.S. is so heavily weighted in. The main upside risk for the global equity market over the next few years is if an 'AI boom' scenario unfolds. With monetary policy now slightly less restrictive, a weaker version of the second half of the 1990s is a possibility this cycle. Back then, excitement linked to the growth of the internet drove gains. This cycle, AI could be the driver

Europe ex UK Equities

The recent pickup in Europe ex UK relative outperformance has been driven by a combination of factors: the weakness in U.S. mega cap digital names, an improvement in European economic data at a time when U.S. indicators have softened, an uptick in optimism toward the cheaply valued European names following a period of deep pessimism toward the region, and the prospects of significantly higher European defence spending. The U.S. probably has a superior corporate profit backdrop, but investors recognise that Europe ex UK is still trading on a significant valuation discount to the U.S. European currencies remain cheap.

Japan Equities

Japan has implemented shareholder friendly reforms, which could help drive a further expansion in relatively depressed price-to-book multiples. Japan is now experiencing a healthy dose of inflation, with wage growth strengthening. Importantly, inflation expectations have picked up. However, demographics amount to a major structural headwind for Japanese equity relative performance. Meanwhile, with the unemployment rate low and labour force participation high, Japan doesn't have much scope to put idle economic resources to work to drive cyclical growth.

 **Asia ex Japan Equities**

China continues to battle multiple structural headwinds, but its productivity is a notable bright spot. Meanwhile, its policy focus is shifting from a stance to contain the private sector to one that supports it. Finally, some of the economic data has turned slightly less bad. Encouragingly, there are structural bright spots in the Asia ex Japan equity index, including India, with its very strong economic growth prospects, and Taiwan, given its high exposure to semiconductors.

 **Emerging Markets ex Asia Equities**

Saudi Arabia, Brazil, South Africa, Mexico, and the United Arab Emirates are the countries with the highest market cap weightings in the EM ex Asia equity index, making it very commodity exposed. While we don't expect much upside to commodity prices, EM ex Asia remains very cheaply valued



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