

Sustainable Managed Portfolio Service

Quarterly report – Q2 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 second quarter of 2025.

During the second quarter of 2025, markets demonstrated remarkable resilience, reaching new highs despite navigating three significant challenges. This phenomenon, often described as “climbing a wall of worry,” highlights the market’s ability to adapt and thrive even amid uncertainty.

Key events shaping the quarter:

Trade wars and tacos: President Trump’s announcement of reciprocal tariffs caused global stocks to decline sharply. However, subsequent U-turns and softened rhetoric led to market stabilisation. This pattern, dubbed ‘TACO’ (Trump Always Chickens Out), suggests the president’s threats may be more bark than bite. While some viewed this as a negotiation tactic designed to escalate and then de-escalate tensions, the swift recovery underscored the market’s capacity to look beyond short-term disruptions.

Real war: A tense but brief ‘12-day war’ between Israel and Iran caused a temporary spike in oil prices. However, the impact on markets was contained, thanks to the stabilising influence of U.S. oil production, which continues to reduce global dependence on OPEC. The conflict followed a familiar pattern of geopolitical escalation followed by de-escalation, reaffirming the tendency for such risks to fade after initial shocks.

The AI arms race: The private sector maintained its aggressive AI investment, confirming its status as a transformative force rather than a passing trend. Meanwhile, despite reciprocal semiconductor export restrictions between the U.S. and China, the quarter concluded with progress toward an improved trade framework between the two superpowers.

Looking ahead

The outlook remains cautiously optimistic. Inflation is showing signs of improvement, and central banks are positioning for potential rate cuts. Against this backdrop, a modestly pro-risk stance is recommended, with an emphasis on diversified quality equities and high-quality sovereign bonds. 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 Q2 2025

- In the U.S., the passage and amendments to the “One Big Beautiful Bill” have been closely monitored, as they include significant changes to energy-related tax incentives. These adjustments are likely to be viewed by the market as somewhat disappointing for the alternative energy sector. The final version of the bill, expected to be released in July, is anticipated to represent a step back from the previous administration’s efforts to support the sector.
- The New York State Common Retirement Fund, the third-largest state pension fund in the U.S., plans to commit \$40 billion to Responsible Investment (RI) by 2035. Currently, the fund manages \$270 billion in assets, with \$26.5 billion allocated to RI solutions. In April, the pension fund committed an additional \$2.4 billion to RI, with the majority of the investment directed toward the FTSE Russell TPI 1000 Climate Transition Index. A recent survey revealed that fewer than 30% of large pension funds in the U.S. incorporate RI factors into their portfolio management processes.
- China’s CATL, the world’s largest supplier of EV batteries, has achieved significant technological advancements that make batteries cheaper, lighter, faster to charge, and resistant to cold. CATL, which produces one-third of the world’s EV batteries, is now developing auxiliary batteries that eliminate graphite, allowing 60% more electricity to be stored in the same space. Additionally, CATL has made progress with main batteries, enabling an EV to be charged in just five minutes for a range of over 320 miles (520 km).
- The second quarter is known as “proxy season,” when most companies hold their major shareholder votes. An RBC Capital Markets survey found that fewer topics were addressed in 2023 proxy voting. However, support for sustainable finance and human rights initiatives increased, while anti-ESG proposals received limited backing (under 2%). RI initiatives were generally scaled back in the U.S., with softer voting language adopted due to recent SEC guidance, whereas Europe and Canada maintained their positions.
- The quarter concluded with an announcement from Alphabet, which plans to purchase electricity from a fusion power project expected to generate energy in the early 2030s. Google signed what it described as the first direct corporate power purchase agreement for fusion energy with Commonwealth Fusion Systems, a company spun off from the Massachusetts Institute of Technology in 2018.

Market overview Q2 2025

- The second quarter of 2025 delivered robust performance across most asset classes, reflecting a renewed appetite for risk among investors despite ongoing political uncertainties.
- Equities led the way, with several regions outperforming the broader market. Developed Asia ex Japan and Developed Europe ex UK posted impressive returns of 6% and 5.7%, respectively, outpacing the global equity market's overall return of 4.9%. Japan and North America performed in line with the broader market, while the UK saw a solid 4.4% gain.
- In the bond market, UK corporate bonds stood out with a return of 2.9%. Global corporate bonds and UK gilts each delivered returns of 1.9%, while global inflation-linked bonds provided a more modest return of 0.9%.
- Performance in alternative asset classes was varied. Absolute Return strategies gained 1.3%, gold saw a slight decline, returning -0.3%, while commercial property faced headwinds, declining by -3.3%.
- Cash delivered positive returns, supported by the higher interest rate environment.

Sustainable MPS performance highlights Q2 2025



Asset allocation

What worked and why?

The portfolios benefited from two key positions. Within equities, the overweight allocation to the UK contributed positively, as the region delivered strong performance during the second quarter. Within alternatives, the underweight position in absolute return also added to overall performance.

Fund selection

What worked and why?

The second quarter saw a notable rebound in U.S. large-cap technology stocks, which had underperformed in Q1. As a result, Brown Advisory recovered from its weak start to the year and became the strongest contributor in Q2. The Schroders Energy Transition Fund also delivered strong performance, supported by incrementally positive news for renewable stocks as the “One Big Beautiful Bill” progressed through the U.S. legislature.



What didn't work and why?

As higher bond yields persist in the UK, the overweight position in UK sovereign bonds acted as a drag on performance during the second quarter.

What didn't work and why?

There were two primary detractors in Q2. The Stewart Asia Pacific Leaders Sustainability Fund underperformed, with its underweight position in China acting as a headwind as trade tensions eased. Additionally, the Evenlode Global Income Fund lagged its benchmark, as income-focused strategies underperformed during the quarter.

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

Sustainable MPS portfolio changes Q2 2025

Asset allocation

In April, the Committee reduced the overweight position in U.S. equities by 1% and increased our cash holdings, taking advantage of the partial market rebound to keep cash available to capitalise on future opportunities.

In May, the U.S. equity overweight position was further reduced to neutral. At the same time, a 0.5% overweight position was introduced in Europe ex UK equities.

Within fixed income, the Committee increased the overweight position in UK gilts by 1%. This adjustment was funded by reducing allocations to global sovereign and index-linked bonds.

In June, the Committee made no additional tactical changes.

Fund selection

In April, the allocation to the BlackRock Sterling Liquidity Fund was increased to reduce risk and maintain liquidity for potential market opportunities. To decrease exposure to North American equities, reductions were made in both the CT Responsible Global Equity and Schroder Global Sustainable Value funds.

In May, adjustments were made to the bond components by increasing the weighting to UK gilts, in line with guidance from the Asset Allocation Committee, through the holding in the L&G All Stocks Gilt Index. This increase was funded by reductions in the L&G Global Inflation Linked Bond Fund and the ASI Global Government Bond Tracker.

SMPS performance

SMPS performance (%)								
	Q2	2025 YTD	1yr	2yr	3yr	2024	2023	2022
Income Portfolio	-1.2	-0.1	2.7	9.0	8.6	4.4	7.5	-11.7
Income Higher Equity Portfolio	-1.4	-0.5	2.3	9.4	10.5	5.1	8.3	-11.7
Balanced Portfolio	-1.6	-0.9	1.8	9.3	11.3	5.4	8.5	-11.5
Growth Portfolio	-1.9	-1.4	1.4	10.0	13.8	6.4	9.4	-11.6
Global Equity Portfolio	-2.1	-1.8	1.1	11.2	17.1	7.8	10.7	-11.7

Inception date: 26 April 2021.

All figures shown above are calculated to 30 June 2025.

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 Q2 2025

Schroder Energy Transition

The fund provides exposure to global companies that are directly contributing to and actively involved in driving the transition towards lower-carbon energy sources. These include companies that either generate at least 50% of their revenue from activities associated with this transition or play a 'critical role' in the transition, even if they don't meet the 50% revenue threshold.

We believe Schroders has a competitive advantage in this space, with lead manager Mark Lacey and his team being dedicated energy sector specialists who bring extensive experience across the entire industry, spanning both environmental technology and conventional energy.

The fund's sustainability objective is to invest in companies that the investment manager evaluates as making a positive contribution to the global transition to lower-carbon energy sources. This includes companies involved in areas such as lower-carbon energy production (e.g. manufacturing renewable energy equipment), distribution (e.g. producing critical electrical equipment for power grids), storage (e.g. manufacturing batteries and other energy storage solutions), transport (e.g. manufacturing electric and other zero carbon vehicles), and the supply of related materials and technology.

The fund's mandate prohibits investments in companies with any exposure to fossil fuels or nuclear power, as well as those with large indirect exposure to these industries through their end markets.

Liontrust Sustainable Global Future Growth

The fund provides exposure to global companies that adopt the Sustainable Future investment process, which uses a thematic approach to identify key structural growth trends shaping the global economy of the future. The fund managers seek to invest in well-run companies whose products and operations capitalise on these transformative changes.

Liontrust boasts a strong sustainable equity franchise across multiple regions, including the UK, Europe ex UK, the U.S., and global markets. The firm leverages a large and experienced team of professionals exclusively focussed on sustainable investing. The fund invests along three main thematic lines: better resource efficiency; improved health; and greater safety and resilience.

The fund provides exposure to a diverse range of global companies of all sizes that demonstrate strong growth prospects due to their dependable sustainability credentials in areas such as improving resource efficiency, health, safety, and economic resilience. In addition to targeting companies with positive contributions to sustainability, the team avoids businesses with significant involvement in areas such as tobacco, gambling, weapons, nuclear energy, pornography, thermal coal, intensive farming, animal testing, deforestation, and human rights abuses.

The resulting portfolio includes a wide range of companies, such as technology firms advancing healthcare innovations, financial institutions that enable better savings or provide insurance against major losses, renewable energy companies, and businesses offering social housing services for councils to address homelessness.

Fiammetta Valentini

Analyst

Sustainable MPS Income

30 June 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.

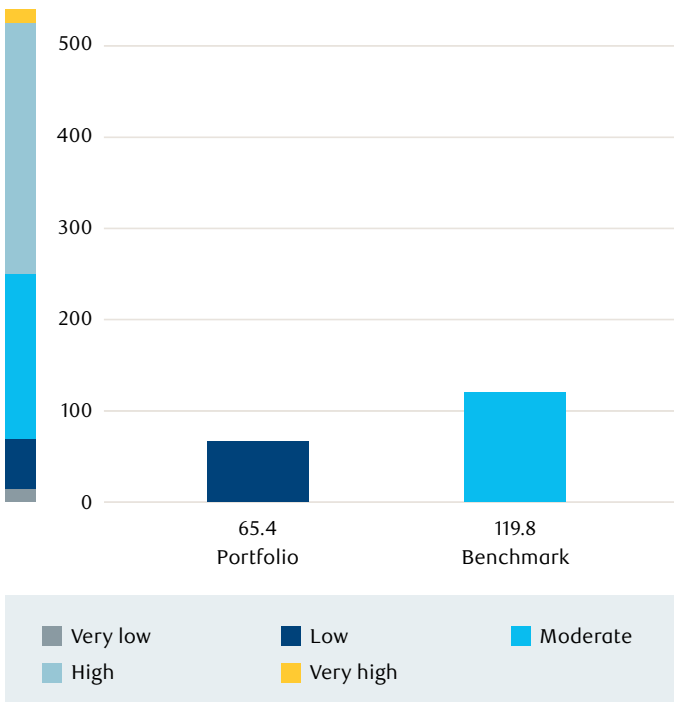
References:

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

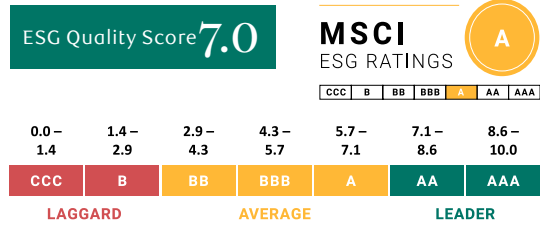
² Scope 2: Indirect GHG emissions that occur from the generation of purchased electricity, steam or heat consumed by the company.

Benchmark for comparison: 45% Global equity, 55% Global aggregate bonds.

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

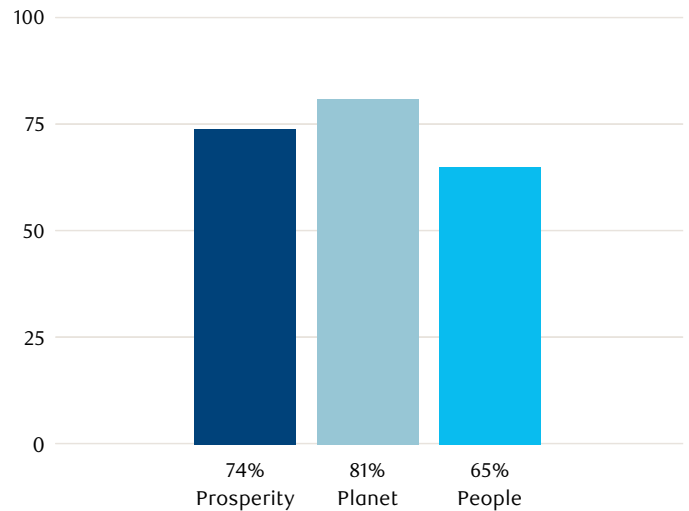


MSCI ESG ratings



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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".

Prosperity



Planet



People



Sustainable MPS Income Higher Equity 30 June 2025

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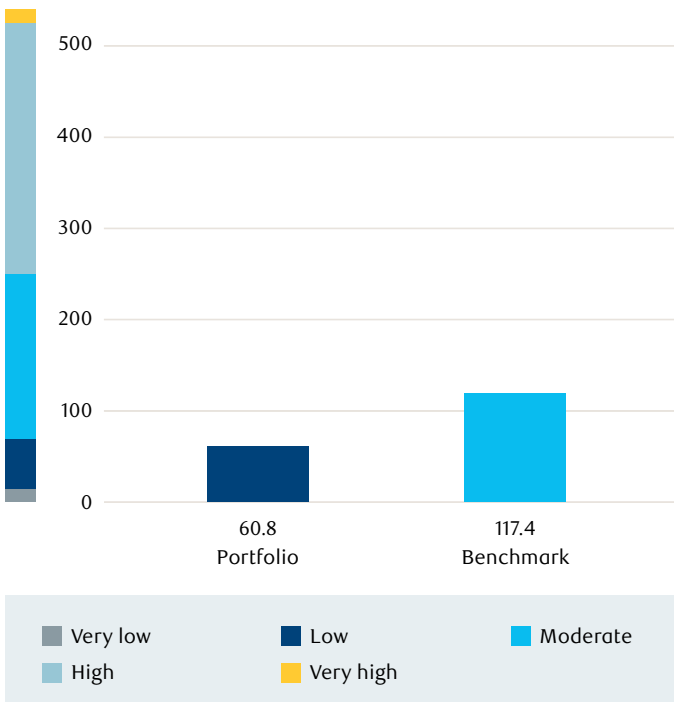
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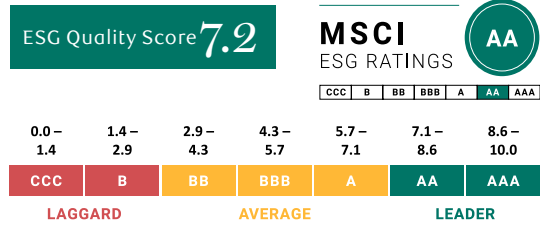
² Scope 2: Indirect GHG emissions that occur from the generation of purchased electricity, steam or heat consumed by the company.

Benchmark for comparison: 55% Global equity, 45% Global aggregate bonds.

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

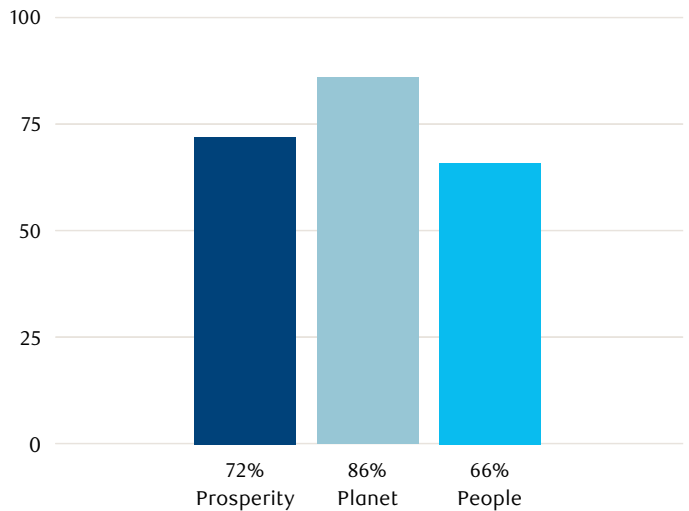


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Prosperity



Planet



People



Sustainable MPS Balanced

30 June 2025

Carbon intensity

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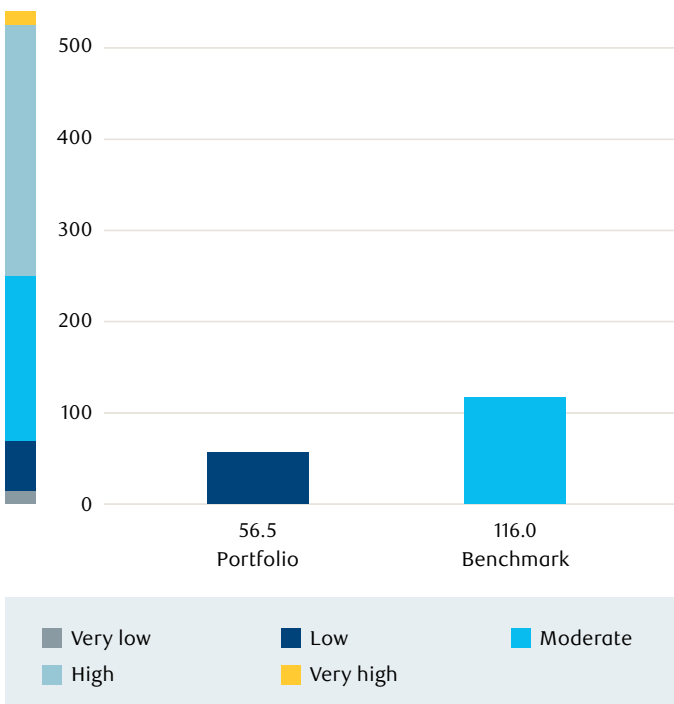
References:

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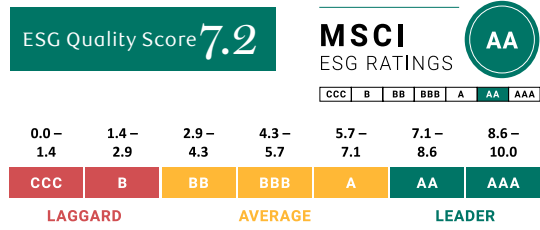
² Scope 2: Indirect GHG emissions that occur from the generation of purchased electricity, steam or heat consumed by the company.

Benchmark for comparison: 70% Global equity, 30% Global aggregate bonds.

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

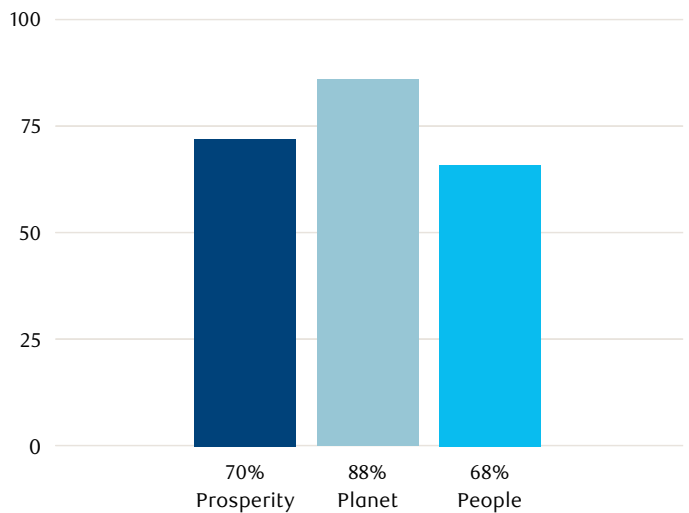


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Prosperity



Planet



People



Sustainable MPS Growth

30 June 2025

Carbon intensity

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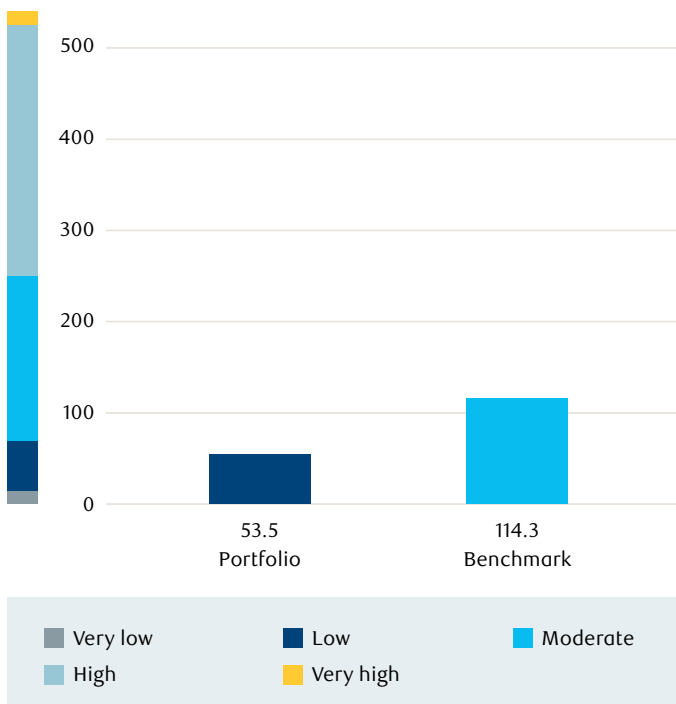
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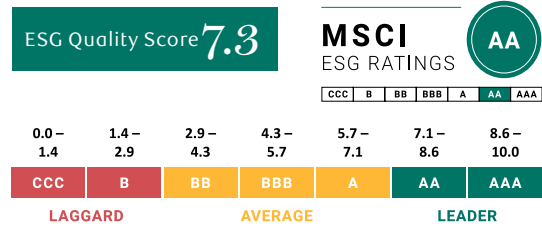
² Scope 2: Indirect GHG emissions that occur from the generation of purchased electricity, steam or heat consumed by the company.

Benchmark for comparison: 85% Global equity, 15% Global aggregate bonds.

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

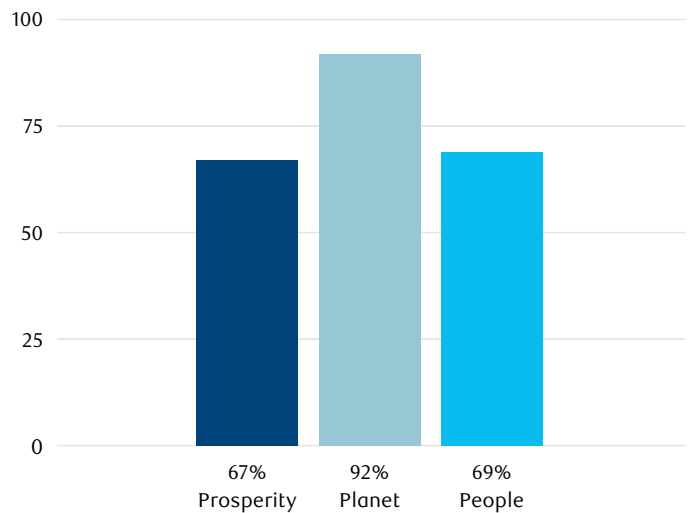


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Prosperity



Planet



People



Sustainable MPS Global Equity

30 June 2025

Carbon intensity

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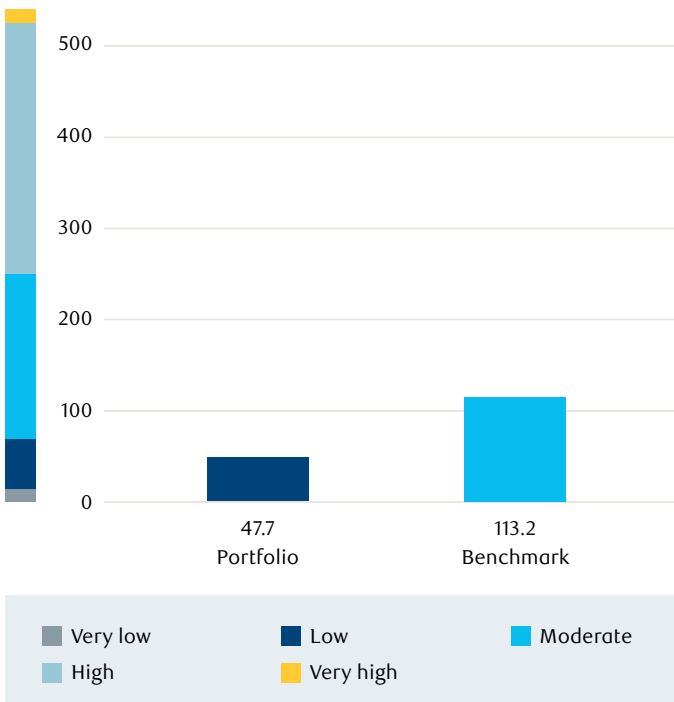
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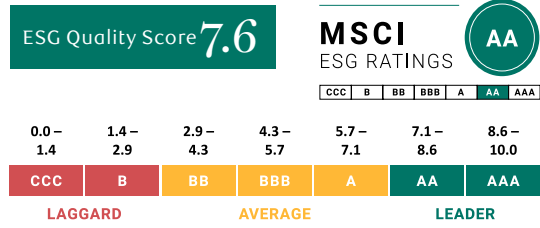
- ¹ Scope 1: All direct GHG emissions from sources owned or controlled by the company (e.g. emissions from combustion in owned boilers, furnaces).
- ² Scope 2: Indirect GHG emissions that occur from the generation of purchased electricity, steam or heat consumed by the company.

Benchmark for comparison: 100% Global equity.

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

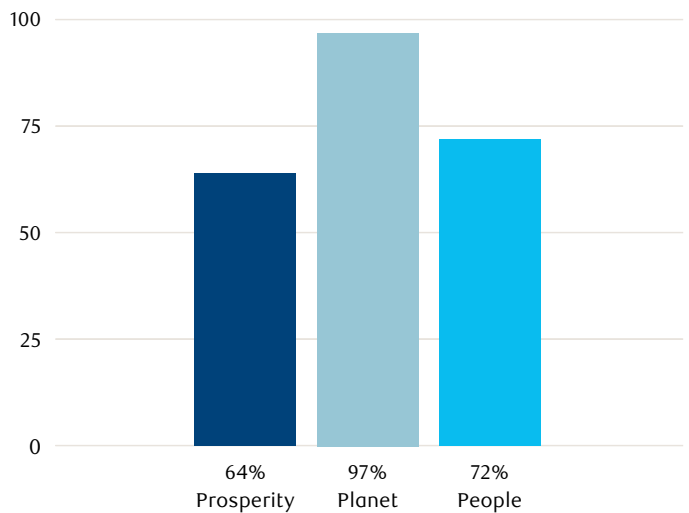


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Prosperity



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 maintain a small overweight position in cash within the portfolio. This allocation provides flexibility and liquidity, ensuring we are well-positioned to deploy capital when the market outlook for other typically higher-yielding asset classes becomes more favourable.

Bonds

Our base case is that safe-haven bond yields will trade within a range in the coming quarters, which largely explains our neutral position in the bonds asset class. Within bonds, we hold an overweight position in government bonds and an underweight position in corporate bonds.

The yield spread between corporate and government bonds remains narrow, but it would likely widen if economic growth were to deteriorate. Recessions are often unpredictable—five of the eight U.S. recessions since 1970 were triggered by shocks. In such scenarios, government bonds would likely outperform corporate bonds.

Given the tight spreads and our preference to maintain a small equity overweight, our bond positioning serves as a partial hedge against risk.

Global Equities

We expect the global economy to continue expanding, albeit at a slower pace, which aligns with expectations for rising corporate profits. We also see potential for AI-driven themes to boost economy-wide productivity and deliver solid profit growth, particularly among the “picks and shovels” plays supporting the AI ecosystem.

That said, we believe a small equity overweight remains appropriate. One reason is the limited scope for cyclical economic growth. Most economies are near full employment, and labour force participation rates are high. Additionally, U.S. immigration restrictions are likely to constrain labour force growth, which in turn limits potential job creation and aggregate demand expansion.

Moreover, U.S. equity valuation multiples, concentration risks, elevated growth expectations for AI-related stocks, and ongoing trade uncertainty all suggest a cautious approach is warranted.

Alternatives

We maintain a small overweight position in gold. We expect central banks to continue diversifying their reserve holdings away from the dollar and other developed-world currencies. Gold is also likely to serve as an effective hedge against several risks. First, in the event of a full-scale global trade war, real yields would likely decline while inflation rises—an environment that historically favours gold. Second, there are longer-term structural risks to consider. De-globalisation, demographic shifts leading to fewer workers relative to consumers (driving wage growth), and persistently high government deficits could result in inflation running higher than central banks’ targets. As a real asset with a limited supply, gold would likely perform well in such conditions.

→ UK Equities

UK relative performance is likely to remain closely tied to the global value versus growth style performance. In our view, some diversification into the value-oriented sectors, where the UK has significant exposure, makes sense at this stage.

↑ U.S. Equities

The U.S. is expected to maintain its productivity growth advantage over the rest of the developed world. Additionally, the U.S. equity market benefits from significant exposure to strong demand for AI-related goods and services. However, we hold a tactical neutral position on U.S. equities for several reasons.

While the megacap digital companies are trading at relatively high valuation multiples, this is less concerning if they can continue to deliver outsized profit growth. That said, sustaining such growth will be challenging given the sheer size of these companies. Notably, the S&P 500, excluding the “Magnificent 7” stocks, still trades at a significant price-to-earnings premium relative to the world ex-U.S. market.

Although the dollar appears oversold in the short term, we believe it has room to decline further over the medium to long term. A weaker dollar could weigh on U.S. equity performance when measured in common currency terms.

Additionally, U.S. trade policies could put pressure on corporate profit margins. Reshoring of manufacturing is likely to lead to higher labour costs, while tariffs will increase import expenses for businesses. Retaliatory tariffs and a potential decline in international consumer sentiment towards U.S. products could further reduce corporate sales abroad. Given the impact of operating leverage, these factors could weigh on profit margins.

↓ Europe ex UK Equities

We maintain a modest overweight position in Europe ex UK. The region’s valuation metrics remain significantly less demanding than those of the U.S. Additionally, the euro is undervalued based on estimates of the purchasing power parity conversion rate, even after its recent rally, suggesting potential for long-term appreciation.

While we anticipate only modest corporate profit growth due to subdued economic growth prospects in Europe, increased German defence and infrastructure spending is expected to provide a meaningful boost. This should help narrow the growth gap between Europe and the U.S. to some extent.

↑ Japan Equities

Japan has introduced shareholder-friendly reforms, which could support further expansion in its relatively low price-to-book multiples. The country is also experiencing a healthy level of inflation, accompanied by strengthening wage growth. Notably, inflation expectations have risen as well.

However, demographics remain a significant structural headwind for the relative performance of Japanese equities. Additionally, with unemployment at low levels and labour force participation already high, Japan has limited capacity to utilise idle economic resources to drive cyclical growth.



Asia ex Japan Equities

China continues to face multiple structural headwinds, but productivity remains a notable bright spot. Additionally, the policy focus is shifting from containing the private sector to actively supporting it. Recent data releases are also encouraging, suggesting that the economy may be turning a corner.



Emerging Markets ex Asia Equities

Saudi Arabia, Brazil, South Africa, Mexico, and the UAE hold the highest market cap weightings in the EM ex Asia equity index, resulting in significant exposure to commodities. While we don't anticipate substantial upside in commodity prices, EM ex Asia remains attractively valued.



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