Sustainable Managed Portfolio Service

Quarterly report – Q4 2024
Annual report – 2024

Brewin Dolphin

Introduction

Welcome to this expanded edition of our Sustainable Managed Portfolio Service (MPS) investment review. In this report, we cover information and events that influenced performance, not only in the fourth quarter of 2024, but across the entire year.

The U.S. economy was a bright spot in 2024, with households continuing to spend and incomes rising. In contrast, China's economy was weak, with a decline in property prices and low consumer spending. The UK economy grew modestly, hampered by high government debt and households grappling with inflation. The global economy was marked by political change, with over 100 countries holding elections and many incumbent governments being dismissed.

In the UK, the new Labour government announced a budget that included tax increases and borrowing, which is expected to fuel inflation which could hamper economic growth. In mainland Europe, France and Germany experienced political instability, with early elections and changes in government.

The U.S. elections saw President-elect Donald Trump's victory and a surprise sweep for the Republicans in both legislative chambers (the U.S. Senate and House of Representatives), albeit with a narrow majority. This was cheered by the stock market, but bonds weakened towards the end of the year.

The Republican Congress is expected to cut taxes, but this might be challenging given the large federal budget deficit. The regulatory environment is expected to be lighter under a second Trump presidency, which could benefit U.S. financials.

The technology and communication services sectors performed well in 2024, driven by the increased investment in artificial intelligence (AI). Gold had a strong year, due to its limited supply and attractiveness as a store of value. Economists are sceptical that President-elect Trump's policies will increase economic growth, but the market is focusing on the easier regulatory environment that can be implemented without Congressional input.

The big picture in Q4 2024

- The final quarter of the year saw Columbia host the COP16 summit on biodiversity. Reasons to be cheerful include small wins in the 30by30 goal – a key target of the Kunming-Montreal Global Biodiversity Framework to protect and conserve 30% of land and sea by 2030. The UK made its own commitment to protect 30% of its land by 2030 – adding to the 38% of UK seas already protected by MPAs (Marine Protected Areas).
- Artificial intelligence (AI) has been an important investment theme of 2024, but one of the challenges is the used energy demands from AI datacentres. This quarter saw a number of big deals on nuclear energy, with Big Tech turning to small modular reactors (SMRs) to fulfil their requirements. Google has signed the world's first corporate agreement to purchase nuclear energy from SMRs. Amazon followed with the purchase of three SMRs deals.
- A recent KPMG report reveals that 41% of the largest 250 companies in the world now tie leadership pay to sustainability. This practice is more common in Europe, with over 60% of UK firms adopting sustainability considerations into board or leadership team compensation. However, the practice is losing traction in the U.S., where the share of companies has dropped from 54% in 2022 to 39% in 2024.
- The backlash against ESG (environmental, social and governance) continued with Texas (joined by ten other states) announcing the launch of a lawsuit against BlackRock, Vanguard, and State Street, accusing the asset managers of using their positions in climate-focused investment initiatives to manipulate coal markets and drive up the cost of energy. The lawsuit mentions asset managers' involvement with the Zero Asset Managers Initiative and Climate Action 100+, which requires them to engage with portfolio companies to align with climate goals.
- 2 December was the date the UK Sustainability Disclosure Requirements came into force. This is very relevant for any UK sustainability investor. We've included a short piece explaining what these new rules mean for clients in our Sustainable MPS annual report.

Market overview Q4 2024

- The fourth quarter saw gold returning 5.8%, whilst commercial property declined by 3.3%.
- Bonds fared poorly. Global Inflation Linked and UK Sovereign Bonds underperformed, returning -2.9% and -3.1%, respectively. Global Corporate Bonds and Global Sovereign Bonds also declined, but to a lesser extent, with returns of -1.5% and -1.8%, respectively.
- Equity markets were mixed. North America stood out with a strong return of 9.8%. Japan also performed well, returning 2.8%. However, Developed Europe ex UK and Developed Asia ex Japan saw significant declines, slipping -3.7% and -1.8%, respectively. The UK and Emerging markets were relatively flat, with returns of -0.4% and -0.9%, respectively.
- Cash delivered a positive return in the higher rate environment.

Sustainable MPS highlights Q4 2024

Asset allocation

What worked and why?

Portfolios benefitted from the overweight position to equities, particularly as we have an overweight in the U.S., which performed well in the hopes of lighter regulation under a new U.S. president. An underweight to absolute return was also beneficial during a year when this part of the benchmark made more modest gains.

What didn't work and why?

An overweight position to sovereign bonds was a detractor but much of the drag was offset by an underweight position to corporate bonds, which also declined.

Fund selection

What worked and why?

The U.S. market performed very strongly in the final quarter of the year. Unsurprisingly, the U.S. managers were the leading contributors to portfolio performance. Brown Advisory US Sustainable Growth was the main beneficiary.

What didn't work and why?

Renewable energy stocks continued their declines in response to the change in administration in the U.S., as Donald Trump and the Republican party have been very vocal in their support of fossil fuels and sceptical of renewable energy. This meant that Schroder Global Energy Transition was a major detractor. Stewart Asia Pacific Leaders was also a major detractor as its underweight to Chinese stocks proved a headwind on the more recent optimism for a return to growth and fiscal stimulus.

Sustainable MPS portfolio changes Q4 2024

Asset allocation

The Asset Allocation Committee increased the exposure to Asia ex Japan in October, funded by a reduction in UK equity, and further reduced our corporate bond allocation in favour of sovereign bonds.

We also increased the allocation to gold, funded by a reduction in cash.

Following the U.S. presidential election in November, we reduced our European equity allocation by 2% and increased our U.S. equity allocation by 2%, given the potential negative impacts of trade tariffs on European economies.

Fund selection

In Q4, we reduced corporate bond strategies in favour of sovereign bonds and inflation-linked bonds, which were both increased.

We also made changes within the equity components of the portfolios, decreasing areas with greater levels of European exposure, and increasing the U.S. exposure in the portfolios. This was done through increasing the Liontrust US Sustainable Future Growth and the Brown Advisory Sustainable funds. The main reductions came from the Schroder Global Energy Transition and Stewart Asia Pacific Leaders funds.

SMPS performance

	Q4	2024 YTD	1 Year	2 Year	3 Year	2023	2022
SMPS Income	-0.5	4.4	4.4	12.2	-0.9	7.5	-11.7
SMPS Income Higher Equity	-0.3	5.1	5.1	13.7	0.4	8.3	-11.7
SMPS Balanced	-0.2	5.3	5.3	14.3	1.2	8.5	-11.5
SMPS Growth	0.2	6.4	6.4	16.4	2.9	9.4	-11.6
SMPS Global Equity	0.7	7.8	7.8	19.3	5.3	10.7	-11.7

All figures shown above are calculated to 31 December 2024.

Inception Date of 26/04/2021. 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 Q4 2024

Baillie Gifford Positive Change

The Baillie Gifford Positive Change fund aims to both outperform the MSCI ACWI index over rolling five-year periods, and to deliver positive impact by contributing to a more sustainable and inclusive world. In the pursuit of the performance objective, the team seeks long-term growth companies that can double in value over five years as a minimum hurdle, with significant growth prospects thereafter.

Baillie Gifford believes exceptional companies produce a disproportionate amount of wealth within and for society, and that the vast majority of long-term wealth creation in markets comes from a very small number of 'explosive' winners. Therefore, the team structures its process to seek out these winners while exploiting the asymmetry of returns within a diversified portfolio. This diversified portfolio approach allows Baillie Gifford to put significantly more importance on upside than downside.

To be included in the positive change strategy, a stock must not only have a very strong financial return outlook but must also have a positive impact – defined as system-level changes expected to happen owing to the company's activities and outputs. The team considers impact across three dimensions: product impact, intent, and business practices.

The product impact assessment looks at how much of a company's revenue is derived from four impact themes: social inclusion and education, environment and resource needs, healthcare and quality of life, and base of the pyramid. This fourth impact theme considers how the world's poorest can be lifted out of the poverty cycle.

Intent considers companies' commitment to driving their industries forward whilst the business practices dimension relates to companies' areas of controversy, the negative consequences of their operations and awareness of those issues.

The team has found the most ideas meeting its criteria within healthcare, which accounts for approximately one third of the portfolio. Elsewhere, the fund holds companies active in agricultural technology, electric vehicles, water testing and treatment, accessible education, recycling, offshore wind, and banking.

The fund was approved for an Impact label under the Sustainability Disclosure Requirements in December 2024. This means the managers produce a Positive Change Hypothesis for each stock held in the portfolio, which outlines how the team expects it to create positive impact. Industry and/or company specific metrics are then used to monitor companies' progress in achieving the expected positive change.

Some examples of industry and/or company specific metrics used to measure positive change include: enabled the avoidance of close to X million tonnes of CO2, allowed customers to save X amount of water, provided treatment and disease management solutions to over X million patients, and provided access to education and/or training to X million registered users.

Anna Haugaard
Senior Analyst

Schroder Global Cities

Schroder Global Cities is a global real estate fund with Article 9 status, which is awarded to funds with a clearly defined sustainable investment objective – a rarity in the global real estate fund space.

At its core, Schroder's investment process is based on the team's belief that REITs (Real Estate Investment Trusts) with assets in dynamic and globally integrated cities with healthy and diversified economies have a greater propensity to outperform.

The team has built an extensive database covering all major cities globally and all assets owned by REITs. The database collects, stores, and processes datapoints for each score used to rank the cities, which is then used to identify REITs that have the greatest exposure to the highest ranked cities. Each company is then individually analysed based on a balance sheet quality score, a liquidity score, and an ESG (environmental, social and governance) score.

The better a company's sustainability policy is, the more capital the team will allocate to this company, thus lowering its cost of capital. As the company becomes more sustainable, the team will allocate more money.

We have been positive on Schroders' approach for some time. We believe the fund should continue to benefit from the rise of population concentration in urban areas, with cities playing an important role in achieving targets set by the Paris Agreement.

Harrison Bone
Analyst

Sustainable MPS Income
31 December 2024

MSCI ESG ratings

ESG Quality Score 7.1

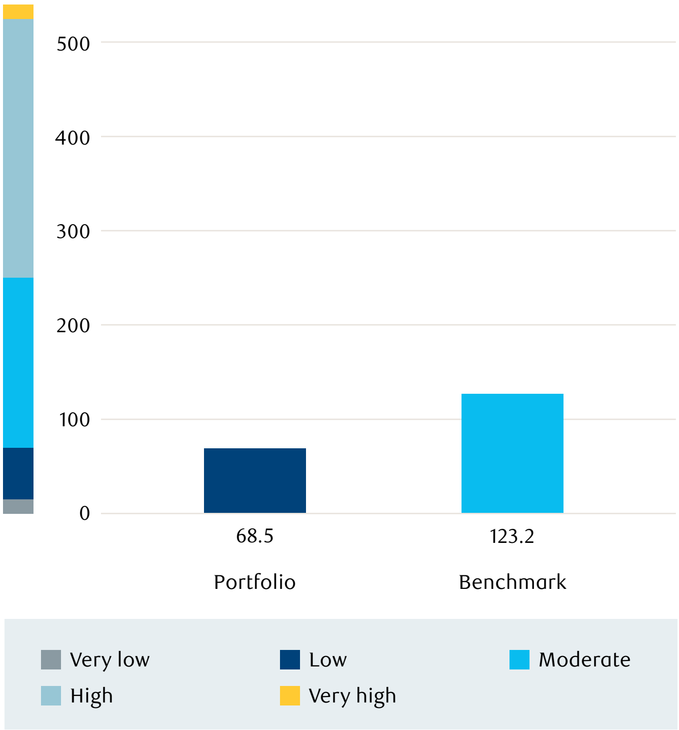
MSCI ESG RATINGS A

CCC	B	BB	BBB	A	AA	AAA

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 1[1] and Scope 2[2] 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.



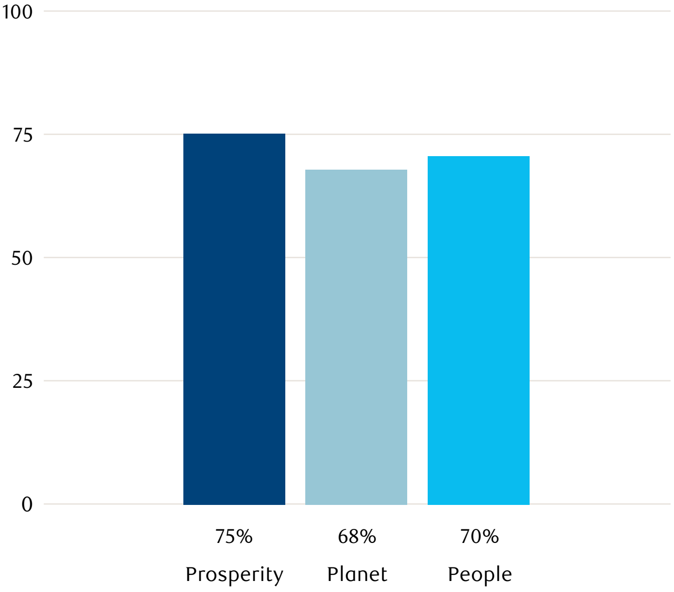
References:

(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".

Prosperity

Planet

People

Sustainable MPS Income Higher Equity
31 December 2024

MSCI ESG ratings

ESG Quality Score 7.1

MSCI ESG RATINGS A

CCC | B | BB | BBB | A | AA | AAA

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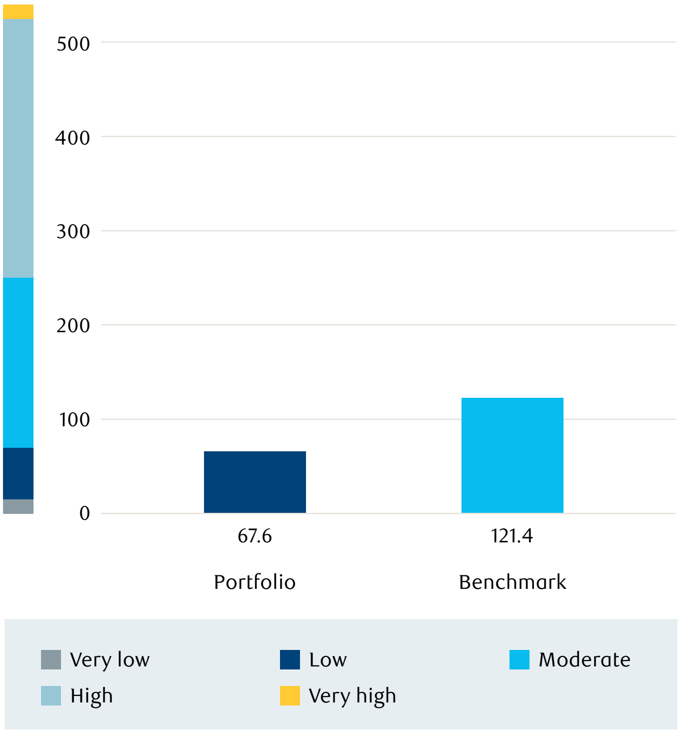

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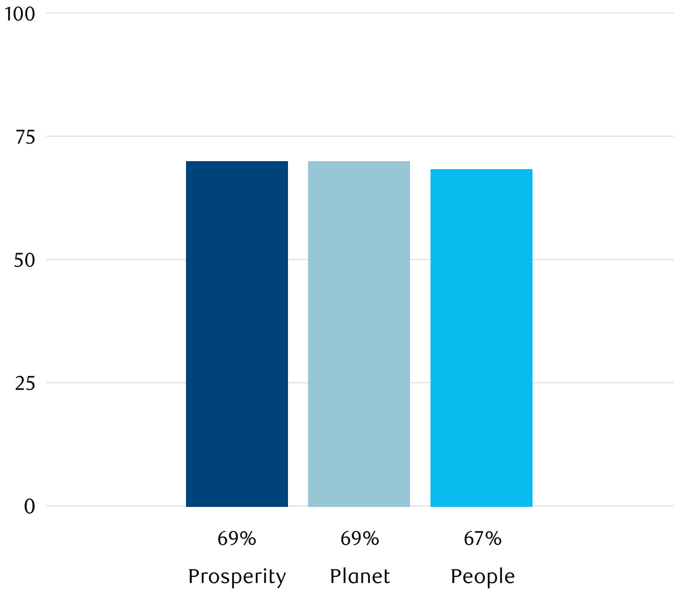
(2) Scope 2: Indirect GHG emissions that occur from the generation of purchased electricity, steam or heat consumed by the company.

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

SDG Alignment



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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

1 NO POVERTY

8 DECENT WORK AND ECONOMIC GROWTH

9 INDUSTRY, INNOVATION AND INFRASTRUCTURE

11 SUSTAINABLE CITIES AND COMMUNITIES

Planet

6 CLEAN WATER AND SANITATION

7 AFFORDABLE AND CLEAN ENERGY

12 RESPONSIBLE CONSUMPTION AND PRODUCTION

13 CLIMATE ACTION

People

2 ZERO HUNGER

3 GOOD HEALTH AND WELL-BEING

5 GENDER EQUALITY

10 REDUCED INEQUALITIES

Sustainable MPS Balanced
31 December 2024

MSCI ESG ratings

ESG Quality Score 7.2

MSCI ESG RATINGS AA

CCC	B	BB	BBB	A	AA	AAA

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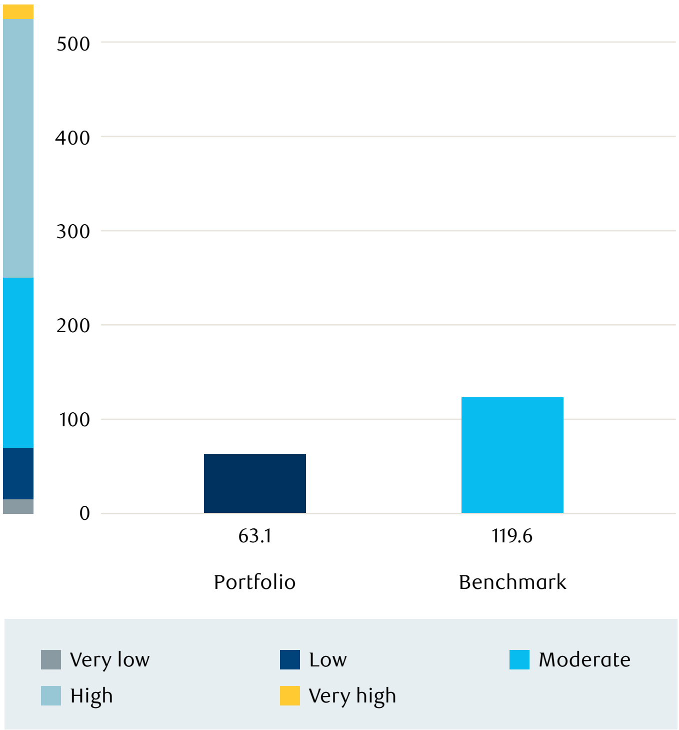

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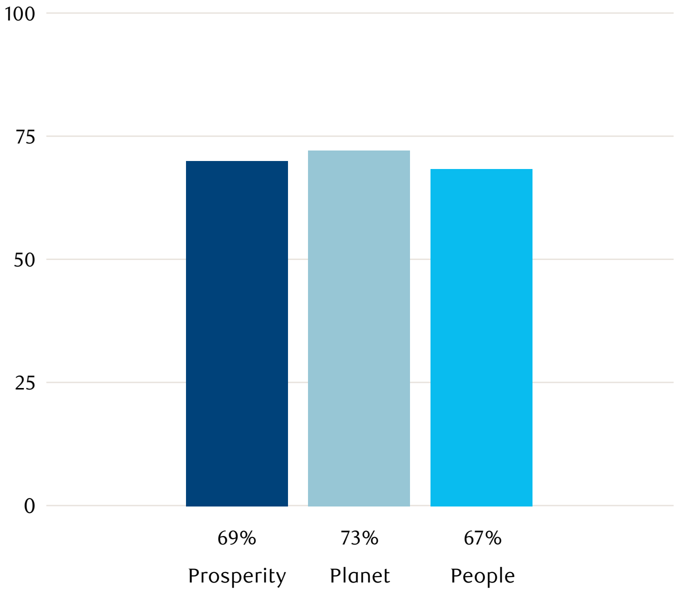
(2) Scope 2: Indirect GHG emissions that occur from the generation of purchased electricity, steam or heat consumed by the company.

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

SDG Alignment



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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 Growth
31 December 2024

MSCI ESG ratings

ESG Quality Score 7.3

MSCI ESG RATINGS AA

CCC	B	BB	BBB	A	AA	AAA

Carbon intensity

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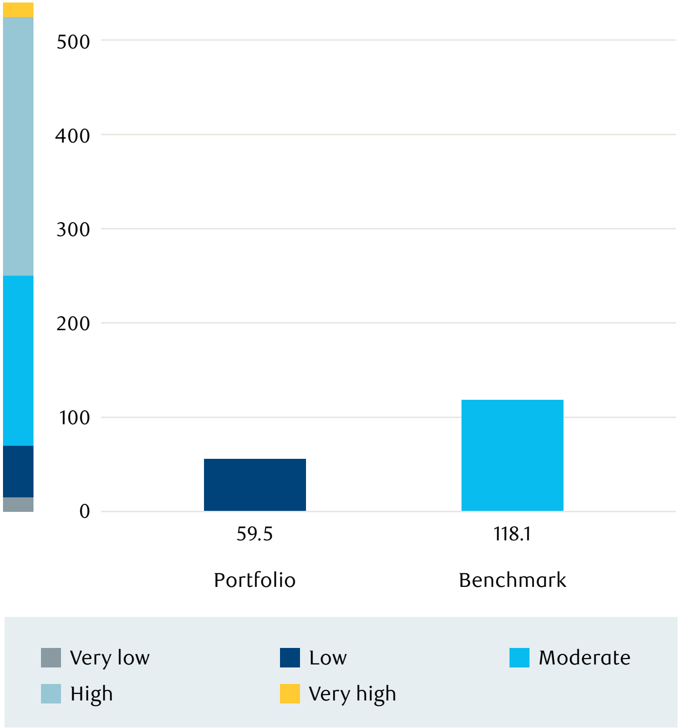

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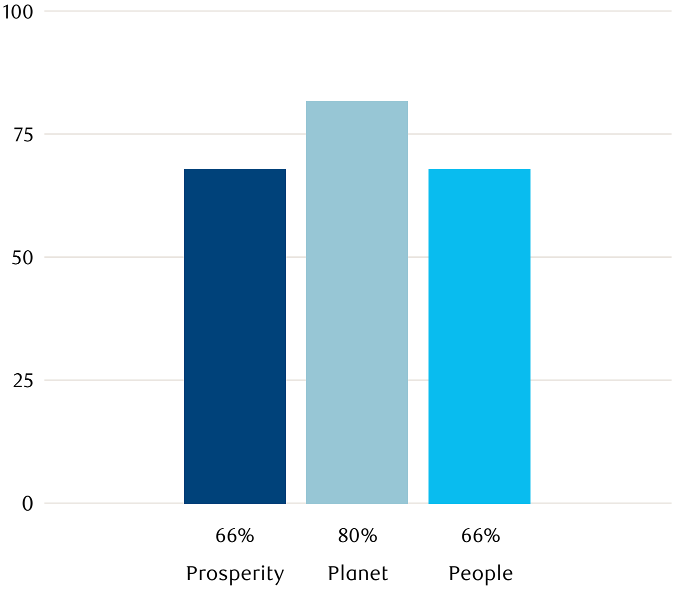
(2) Scope 2: Indirect GHG emissions that occur from the generation of purchased electricity, steam or heat consumed by the company.

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

SDG Alignment



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Prosperity

Planet

People

Sustainable MPS Global Equity
31 December 2024

MSCI ESG ratings

ESG Quality Score 7.6

MSCI ESG RATINGS AA

CCC | B | BB | BBB | A | AA | AAA

Carbon intensity

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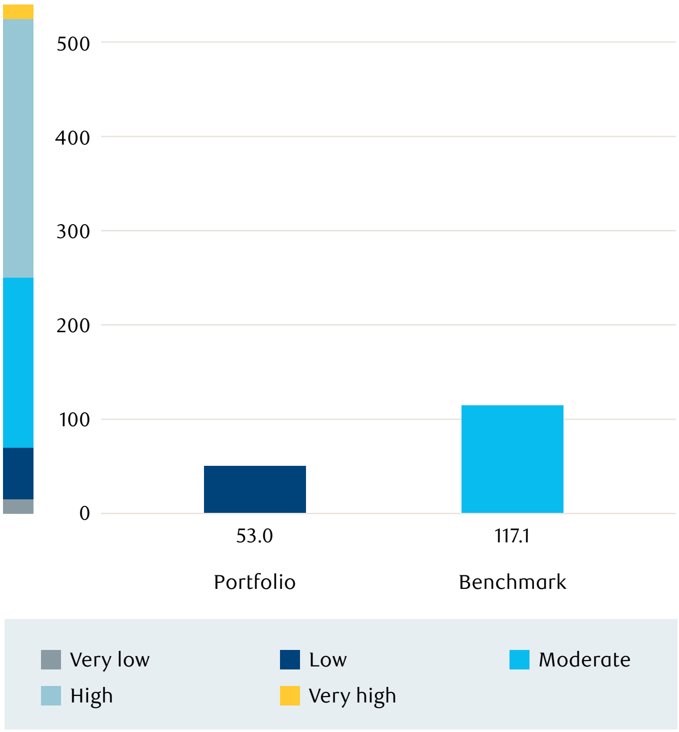

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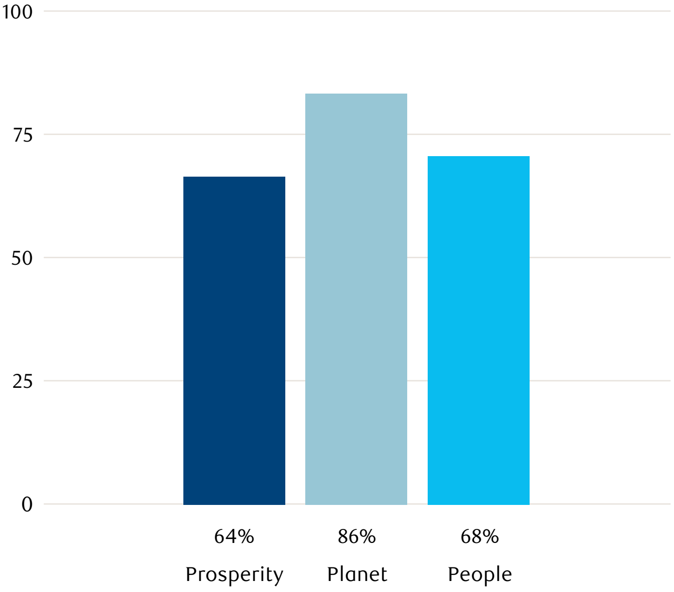
(2) Scope 2: Indirect GHG emissions that occur from the generation of purchased electricity, steam or heat consumed by the company.

Benchmark for comparison: 100% Global equity.

SDG Alignment



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Sustainable Managed Portfolio Service

Annual report – 2024

Brewin Dolphin

Sustainability Outlook

What will 2025 bring?

The coming year is going to be pivotal for sustainable investment in the UK. Last year saw the long-awaited introduction of the FCA's Sustainable Disclosure Requirements (SDR). Asset managers are now using the labels to for funds with sustainability objectives, and although we are still at an early stage, already we are seeing greater transparency in the market.

We are still waiting for final rules from the FCA portfolio managers. As such we are currently unable to use the SDR labels for portfolios such as Sustainable MPS, but we are looking forward to getting clarity and will then assess implications on our offerings.

The anti-greenwashing rule, which focuses on misleading messaging and unsubstantiated claims relating to ESG and sustainability, came into force in May 2024. We welcome this regulation, which we believe creates a level playing field and reduces claims which can be mis-leading and confusing for investors and retail clients.

A critical year for climate change

After the record temperatures of 2024, and the increasing occurrences of climate-related natural disaster, we believe that 2025 will be a critical year for climate change, and a year of contrasts. The US has pulled out of the Paris Agreement and White House policies will slow the uptake of renewables. However, the transition to clean energy has huge momentum, and is only heading in one direction. The main question is not will the transition continue, but at what pace? The Trump administration will probably slow down certain markets, but will not come close to stopping the transition. The costs of solar, wind and batteries have fallen dramatically, faster and further than originally predicted. China's emissions are soon to peak, and accordingly to some analysts may have already peaked, well ahead of their 2030 target. We will be watching developments closely.

We will also be tracking how national governments change rules and policies ahead of COP30, which takes place in Belém, Brazil in November. Risks and opportunities related to climate change will remain a key consideration for our managers as part of their ESG integration processes.

Stewardship through partnership

From a stewardship perspective, we believe that partnering with other aligned investors is a powerful way of influencing companies, regulators, and policymakers on priority issues. By joining forces with other investors with the same objective, we can increase our chances of securing a positive outcome. Through our engagement partnership with Columbia Threadneedle reo©, and as members of Climate Action 100+ and Nature Action 100, we plan on continuing our collaborative engagement work in the climate and nature space.

Evolving our approach to responsible investment

We will also continue to evolve our approach to responsible investment over the next 12 months, and we are planning on submitting a fifth application to continue as a signatory of the Financial Reporting Council's Stewardship Code.

Our own operations

In terms of our own operations, we will continue efforts to reduce our operational emissions, which are aligned with RBC's commitments to reduce GHG emissions by 70% by 2025, and to increase sourcing of electricity from renewable and non-emitting sources to 100% by 2025. In 2023, RBC's emissions were 67% lower than in 2018, and we met the goal of sourcing 100% of our global electricity consumption from renewable and non-emitting sources.

Tom Blathwayt
Director, ESG

Stewardship

Stewardship is a core part of our Sustainable MPS service. Our team selects funds that are industry leaders in integrating environmental, social and governance (ESG) factors into investment decisions and in stewardship. We take the time to fully assess stewardship capabilities at the fund selection stage and actively monitor funds' stewardship work on an ongoing basis.

Proactive engagement

Our stewardship work is a balance between reactive and targeted engagement based on a specific issue or controversy, and proactive campaigns of engagement with larger groups of funds, investment trusts or listed companies. Our proactive work tends to cluster around the end of the year as we seek to monitor our holdings based on their activities over the year.

Our controversy tracking philosophy

Real-time analysis of ESG leadership

- ESG leadership is often assessed by a collection of factors, such as policies, reporting or committees. However, we believe that you only truly know how a company treats stakeholders when controversies emerge.
- We evaluate a fund's ESG integration predominantly by analysing its past investment actions. Monitoring their response to corporate controversies can build evidence or provide challenge to our conclusions.

Monitor funds' stewardship processes

- Our controversy tracking process allows us to monitor their activities as they are happening, as well as the initial due diligence we undertake with each fund.
- We will escalate matters within a fund house where we feel their engagement is not of a sufficient standard.

We monitor the climate approach of our fund managers via our annual climate engagement programme, using the Transition Pathway Initiative. This year, once again, we identified those companies flagged as misaligned with the goals of the Paris Agreement and reached out to the funds that hold them on our behalf. For our 2024 engagement, we reached out to 49 fund houses, covering 135 funds and 79 underlying companies. The objective remains consistent with past years: understanding how the funds are taking this misalignment into account, and how their stewardship policies and commitments feed into their approach, specifically around climate.

Voting is another pillar of stewardship and a crucial mechanism for signalling (dis)satisfaction with a company's approach or progress made. We're very transparent with our voting decisions (which are available online) and rationales for significant votes (which are published in these updates). We therefore expect the same level of transparency from our fund managers, and asked 25 of them for their rationales on meetings we deemed to be significant or controversial over 2024. We have received responses that include vote rationales and details of any related engagements, which will be used to determine how well this aligns with our own voting activity.

Controversy tracking

Another aspect of our approach is through controversy tracking. We continually scan news flow for controversies in the companies to which we are indirectly exposed. When these arise, we assess specific issues and, if significant enough, reach out to our fund managers that hold the company in question to understand how they are monitoring and engaging on these issues, and the effect on their investment decisions.

Throughout the year, our process highlighted seven controversies that we felt warranted further engagement. In total, we made contact 27 times with fund managers to confirm their awareness of the issue, rationale for continuing to hold the company in question, engagement efforts, and next steps. Through this process, not only do we encourage better outcomes for the underlying companies, but we also effectively monitor funds' ESG and stewardship processes. Should responses be unsatisfactory, we won't hesitate to escalate within the fund house.

Case study: Equinix

Stewardship is a core part of our Sustainable MPS service. Our team selects funds that are industry leaders in integrating environmental, social and governance (ESG) factors into investment decisions and in stewardship. We take the time to fully assess stewardship capabilities at the fund selection stage and actively monitor funds' stewardship work on an ongoing basis.

We approached two of our funds, including one held in Sustainable MPS, due to their significant holdings in Equinix, a company specialising in data centres with over 260 locations globally.

Hindenburg, a U.S.-based forensic financial research firm, produced a report highlighting some accounting red flags, valuation concerns, and potential issues in some of its end markets. Some of its concerns related to how spending by the company was being classified, which has an impact on remuneration for management. The fund managers we spoke to provided in-depth views and analysis, with one stating that this report didn't bring up anything new and that the ways it accounts for spending largely mirrored that of its peers. Furthermore, issues raised in the report about the impact of growth in cloud computing on end markets were not deemed material, as there's still a place for Equinix's offering as a physical data centre provider due to reasons such as security and regulatory requirements.

Overall, having reviewed the responses, we were satisfied with both funds and their comments across each area, and by extension, their holding of Equinix.

Case study: Reckitt Benckiser

Towards the end of March, a U.S. court awarded $60m in compensation to the mother of a baby who died of necrotising enterocolitis (NEC) after being fed Enfamil baby formula, produced by Reckitt Benckiser subsidiary Mead Johnson. This is one of many lawsuits in the U.S. against Mead Johnson and another manufacturer of baby formula, Abbott Laboratories. Given the size of the compensation, and the subsequent drop in share price of as much as 20%, not to mention the safety of infants, we engaged with the fund managers that hold Reckitt Benckiser on our behalf. We wanted to understand their views on the issue, if they had engaged with the company and any impact this situation might have on the investment case.

We were satisfied with the quality of responses and noted that several fund managers had engaged with the company and/or medical experts. What we took away is that while there's a risk to the reputation of Reckitt Benckiser, the scientific evidence doesn't necessarily back up the outcome of the court case, and that Reckitt Benckiser will appeal the verdict. For the time being, most fund managers continue to have conviction in the stock, and one has sold. Furthermore, we engaged directly with the chair of the company via the Investor Forum, alongside a group of other investors. Whilst being limited in what he could say due to the ongoing nature of the situation, the chair assured us that their products are backed by the medical community and that the board is committed to achieving the best outcome at the end of this process. We will continue to monitor the situation and engage again if necessary.

Reaffirming our priorities for 2025

Our stewardship priorities help us to allocate our finite resources in the most efficient and effective way possible. To that end, in 2024 we introduced our four stewardship priorities: climate, nature, human rights and governance. These were selected based on the potential risk they pose to companies and investments, the ability to engage with the topics, and the views of our investment managers who know our clients best.

Following a successful first year, in which we have engaged on topics from climate change and nature loss to modern slavery and supply chains, these priorities will remain in place for 2025. Our stewardship activities will be reported in full against these priorities in our Annual Stewardship Report, which will be published in the spring.

Kelly Eva
Stewardship Manager

Sustainable MPS annual market overview 2024

- Generally, 2024 was a good year for investors with gold and U.S. equities the standout performers, rising 27.3% and 26.3% respectively. Other asset classes also put in respectable performances, with commercial property and absolute return rising 4.2% and 4.7%, respectively.
- Bonds were more mixed. Global Corporate Bonds performed well with a return of 3.6%, whilst UK Sovereign Bonds fell -3.4%.
- As noted above, North America was the standout equity market, followed by Japan at 10.1% and the UK at 9.5%. Developed Asia ex Japan returned 11.8%, while Developed Europe ex UK saw a relatively modest return of 2.2%. Emerging markets, however, experienced a decline of -5.3% as the Chinese economy languished.
- Cash delivered positive returns in the higher interest rate environment.

Sustainable MPS highlights 2024

Asset allocation

What worked and why?

Overweight positions to stocks, particularly with our tilt towards U.S. equities, was positive through 2024. An underweight to absolute return was also beneficial during a year when this part of the benchmark made more modest gains.

What didn’t work and why?

An overweight position to sovereign bonds was a detractor but much of the drag was offset by an underweight position to corporate bonds, which also declined.

Fund selection

What worked and why?

U.S. growth stocks had another good year, with artificial intelligence being the dominant theme in the first half. After a wobble in Q3, it came back to the fore at the end of the year. Brown Advisory Sustainable Growth captured these themes well in its portfolio and was the largest contributor to performance.

What didn’t work and why?

Renewable stocks had their second tough year in a row. Schroders Global Energy Transition fund was the most significant detractor in 2024, as valuations in the sector moved into discounted territory. Stewart Asia Pacific Leaders fund was also a detractor. Its underweight in Chinese names, which has previously been very helpful, hurt in a year of increased economic optimism for a Chinese recovery.

Sustainable MPS portfolio changes 2024

Asset allocation

In Q1, the Asset Allocation Committee made several changes to our tactical guidance. In February, we increased the allocation to U.S. equities and global property by 0.5% each, funded by reductions in cash and Absolute Return. In March, we raised the allocation to non-U.S. equity regions to neutral while maintaining a positive stance on U.S. equities, again funded by a reduction in Absolute Return exposure.

In Q2, we made further changes. In April, we increased the allocation to U.S. equities by a further 0.5% and reduced cash. Additionally, we moved overweight on UK equities due to the improved economic backdrop, funded by reducing the cash allocation.

In Q3, we advised for no tactical changes, maintaining our overweight position in sovereign bonds and underweight position in corporate bonds. We believed that the overweight position in sovereign bonds was appropriate ahead of the forthcoming interest rate cutting cycle, and that corporate bonds did not provide adequate compensation for the level of risk.

In Q4, we made several changes. We increased our exposure to Asia ex Japan, funded by a reduction in UK equities, and further reduced our corporate bond allocation in favour of sovereign bonds. We also reduced cash, allocating more to inflation-linked bonds. Following the U.S. presidential election, we reduced our European equity allocation by 2% and increased our U.S. equity allocation by 2% given the potential negative impacts of trade tariffs on European economies.

Fund selection

In Q1, we made several changes to the portfolios. Following the changes to the strategic asset allocation benchmark, the allocation to overseas sovereign bonds was reduced and the allocation to UK gilts was increased, reflecting our increased preference for domestic bonds. Separately, the BNY Mellon Sustainable Global Dynamic Bond fund and Muzinich Global Tactical Credit were decreased in Alternatives, and Stewart Asia Pacific Leaders and Evenlode Global Income were increased in equities.

In Q2, the Evenlode Global Income and the FSSA Asia Pacific Sustainable Leaders were increased, while the Muzinich Global Tactical Credit and the BNY Mellon Global Dynamic Bond were further reduced. We also increased positioning in the Liontrust Global Sustainable Future US Growth, funding this from the cash fund, BlackRock ICS Sterling Liquidity.

There were no fund changes to fund selection in the portfolios during Q3.

In Q4, we reduced corporate bond strategies in favour of sovereign bonds and inflation-linked bonds, which were both increased. We also made changes within the equity components of the portfolios, decreasing areas with greater levels European exposure and increasing the U.S. exposure in the portfolios. This was done by increasing the Liontrust US Sustainable Future Growth and the Brown Advisory Sustainable funds. The main reductions came from the Schroder Global Energy Transition and Stewart Asia Pacific Leaders funds.

Impactful companies

Many of the companies held within RBC Brewin Dolphin's Sustainable Model Portfolio Service are driving the transition towards a more sustainable economy. Our clients' investment in these companies indirectly supports them in their ongoing expansion. So, we have picked a few highlights to demonstrate some of the amazing things that are happening under the bonnet of the portfolios:

Alignment to supporting the Planet

TE Connectivity – held by NinetyOne Global Environment

TE Connectivity's solutions enable sustainable decarbonisation across industries and end use applications. The company helps customers produce smaller, lighter and more energy-efficient products, and supports the electrification of automobiles through its connectivity applications. This is a key driver of the investment's value and the impact of its carbon avoidance activity (activity that helps halt carbon emissions). Exposure to other structural growth areas like renewables, factory automation and datacentre energy efficiency increase this carbon-avoided impact.

nVent Electric – held by Trium ESG Emission Improvers

nVent Electric designs, manufactures, markets, installs and services high performance products and solutions for equipment, buildings and essential processes across data centres, industrial automation, renewable energy and energy storage. Its company mission aims to build a more sustainable and electrified world. However, it reports on its business sustainability more broadly and has made good progress on reducing water consumption, single-use plastics, and its own energy consumption whilst growing the business.

Alignment to supporting people

Henry Schein – held by Schroders Global Sustainable Value

Henry Schein, the wholesale dental healthcare distributor and manufacturer, contributes to healthcare. Through the Henry Schein Cares Foundation, it demonstrates a commitment to improving access to healthcare by providing product donations to underserved communities. It focuses on increasing access to oral healthcare for children and people with disabilities. It has set a target to become carbon neutral by 2050, which is currently being validated by SBTi. Henry Schein also emphasises the circular economy by implementing resource efficiency, recycling initiatives, and repair services for its products. Its commitment to human capital is evident through employee engagement initiatives, diversity and inclusion efforts, and health and safety practices.

Agilent – held by Brown Advisory US Sustainable Growth, Liontrust Sustainable Future US Growth and Pictet Global Environmental Opportunities

Agilent is a leading test and measurement company supporting scientists in 110 countries in cutting-edge life science research, patient diagnostics, and testing required to ensure the safety of water, food and pharmaceuticals. Its products help us ensure the air we breathe, the water we drink and the food we eat isn't affected by dangerous impurities. It also has a growing diagnostics business, which enables innovation in areas such as gene therapy.

Alignment to supporting prosperity

MonotarRO – Stewart Asia Pacific Leaders

MonotarRO is a one stop online shop for products including nuts, bolts and bearings that keep factories running. By making factories more efficient, it plays an important role in making Japan more productive. Today, the vast majority of these factory products in Japan are still ordered by a manager thumbing through a thick catalogue and calling up a distributor. In a labour scarce economy, the time spent every day searching through a thick book for niche products is a significant cost, and so too is the idle time spent waiting for products to arrive when local distributors don't have them in stock. MonotarRO's solution is simple: an online shop with a wider and deeper number of stock items that reduces searching and waiting time. For MonotarRO, the key barrier to growth is convincing older factory managers set in their ways to adopt this new technology. Here, demographics are on their side. Every year, thousands of older factory managers retire and are replaced by younger colleagues more willing to use the company's technology.

nVent Electric – held by Trium ESG Emission Improvers

nVent Electric designs, manufactures, markets, installs and services high performance products and solutions for equipment, buildings and essential processes across data centres, industrial automation, renewable energy and energy storage. Its company mission aims to build a more sustainable and electrified world. However, it reports on its business sustainability more broadly and has made good progress on reducing water consumption, single-use plastics, and its own energy consumption whilst growing the business.

Taiwan Semiconductor Manufacturing Company (TSMC) – held by Baillie Gifford Positive Change, CT Responsible Equity and Robeco UN SDG Credits

TSMC is the world's largest integrated circuit foundry. The company's scale, technology and efficiency will continue to enable price declines for semiconductors, in turn enabling innovation and environmental and social impact across many industries. The capital intensity of the foundry industry is continually increasing, and TSMC, being a trusted long-term partner and the largest company, can invest in the latest equipment to maintain its cost advantage. These advantages should enable TSMC to benefit from the long-term growth of the semiconductor industry while generating attractive returns.

Not all, but many of the environmental and social challenges the world faces today have known and yet-to-be-discovered technological solutions. Indeed, many of the products and services and research and development (R&D) of companies rely on modern semiconductor designs, and their accessibility depends on technological price deflation and further innovation. The Global Innovation Index shows that the growth in key indicators of technological innovation, such as the microchip transistor count, has been accompanied by increases in patent filings, scientific publications and R&D spending in recent years.

Tom Buffham
Portfolio Manager

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

Although cash continues to offer a decent yield, we are underweight. We see continued scope for equity market gains, and gold to move higher.

→ Bonds

Government bond yields tend to move in a directionally similar fashion as central bank rate expectations. In the U.S., the market is currently pricing in 85 basis points of Federal Reserve (the Fed) rate cuts by this time next year. In the UK, market implied expectations are for 78 basis points in cuts. Our base case is that both the U.S. and UK experience decent economic growth over the next year. Our expectation is that inflation continues to slowly subside, but that there will be an element of stickiness. As such, we doubt central banks will reduce rates by more than what's already priced in. The upshot is that in this scenario, government bond prices probably don't have much upside. Nevertheless, we remain overweight, offsetting this with an underweight position in corporate bonds, where spreads are very tight. This positioning provides a hedge to our equity overweight if economic growth disappoints.

↑ 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 solid profit gains among the pick and shovel plays. There's a lot of momentum behind the stock market, and we believe it makes sense to stay on the right side of the trend. However, it doesn't appear to be a great time to raise our exposure further. For one, there's limited room for cyclical economic growth. With most economies close to full employment and high labour force participation, there isn't much scope for workers on the sidelines to get a job, earn an income, and increase aggregate consumption. Meanwhile, equity sentiment is bullish, with the dominant market emotion being one of 'greed' rather than 'fear'. The implication is that a lot of good news is already in the price. Finally, 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. As such, we maintain only a modest global equity overweight.

↓ Alternatives

Gold has corrected from overbought territory following the U.S. election. Looking ahead, there are both cyclical and structural factors supporting gold. These include the scope for real bond yields to continue to decline, and central banks diversifying their reserve holdings out of the U.S. dollar and other developed world currencies. Gold also acts as a good hedge against several risks. Turning to property, while fundamentals are challenging in the office space, the market cap weighting of this subsector is small. The backdrop is notably brighter in other REIT (Real Estate Investment Trust) subsectors. We maintain a neutral position. Finally, gold could do well on the back of just a simple moderation in real yields as the economy slows. Turning to property, while fundamentals are challenging in the office space, the market cap weighting of this subsector is small. The backdrop is notably brighter in other REIT subsectors. Nevertheless, safe haven bond yields may not drop that much in the event of a soft landing. Only a small decline in yields might not be enough to drive strong relative performance in this interest-sensitive sector. Against this mixed backdrop, we maintain a neutral position.

→ UK Equities

UUK relative performance should continue to be closely linked to value versus growth style performance, and there are reasons to believe the outlook for the latter 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 versus global gross domestic product and UK versus global equity performance. We suspect Labour will have some success in boosting economic growth. However, the pathway to success isn't guaranteed. The UK equity market trades on very undemanding valuation multiples.

↑ U.S. Equities

A key concern with regards to U.S. equity exposure relates to valuation. Equity valuation multiples and the valuation of the dollar both appear stretched. Nevertheless, we're more optimistic on U.S. equities than other regions. The secular outlook appears relatively bright for the technology 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 the Fed now cutting rates, 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. Following November's presidential election victory of Donald Trump, we've boosted our U.S. equity exposure. In a trade war, the country with the trade deficit stands to win most (or lose the least), and the U.S. runs trade deficits against many countries. Trump's trade policies give the U.S. a better chance of maintaining its growth advantage versus the rest of the world. Relatively strong growth could boost the U.S. dollar, providing support to U.S. equity relative performance in common currency terms. In the event of a global trade war, the U.S. might also benefit from its relatively defensive sector composition.

↓ Europe ex UK Equities

We remain underweight Europe ex UK. The European Union (EU) will be in Trump's sights given its big trade surplus versus the U.S. The EU also has additional growth headwinds coming from its two biggest economies. In France, the new government has just collapsed, and political uncertainty is high. The next government will be confronted with the same fiscal reality and will likely be forced to take steps to reduce the deficit, which should weigh on growth. Germany continues to struggle, with its automobile companies under pressure from cheap Chinese electric vehicles. More broadly, its export sector is under pressure due to weak Chinese domestic demand.

↑ Japan Equities

There's momentum behind shareholder-friendly reform in Japan, which could help drive a further expansion in relatively depressed price-to-book multiples. 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. Despite low price-to-book multiples, Japan doesn't stand out as cheap, in our view. Indeed, it trades at a premium to the world ex U.S. market on 12-month forward price/earnings.

↑ Asia ex Japan Equities

The Chinese authorities appear to be taking the deflation risk more seriously. To successfully boost inflation, the authorities will try to stoke demand growth. The combination of higher inflation, stronger growth and declining real interest rates is a supportive backdrop for equities. The Chinese housing market remains weak, but the authorities are incentivised to drive an improvement as soon as possible. Given that over 90% of the Chinese population own their own home, they'd be risking a breakdown in social instability (who they're very keen to avoid) if house prices decline much further. China and Hong Kong equities appear oversold on a medium-term time horizon. We acknowledge that the change in tack by the authorities doesn't alter the fact that the structural headwinds leaning against China haven't gone away. However, there are structural bright spots in the Asia ex Japan equity index, including India and Taiwan.

↓ Emerging Markets ex Asia Equities

Brazil, Saudi Arabia, 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. We don't expect much upside to commodity prices in an environment where global growth is slowing. That said, EM ex Asia remains very cheaply valued.

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