



Brewin
Dolphin

Sustainable Managed Portfolio Service

Quarterly report – Q2 2023



Introduction

Welcome to the RBC Brewin Dolphin Sustainable Managed Portfolio Service (MPS) investment review. In this report, we cover information and events that influenced performance during the second quarter of 2023.

Global equities rose over the second quarter as signs of slowing inflation and economic resilience in the world's largest economy helped to outweigh concerns about further interest rate hikes.

The US Federal Reserve raised interest rates by a quarter of a percentage point in May, before electing to skip a rate hike in June. US inflation eased by more than expected in May, but continued tightness in the labour market means two further rate hikes are expected this year.

The European Central Bank and Bank of England (BoE) increased interest rates twice in the quarter, taking their main rates to 4.0% and 5.0%, respectively. The BoE chose to reaccelerate the pace of rate hikes in June after data showed inflation remained worryingly high. With a slew of UK mortgage deals due to end over the coming months, the second half of the year is expected to be a difficult one for the housing market and UK mortgage holders.

Among equities, the buzz around artificial intelligence boosted US technology stocks. It was an unprecedentedly narrow market – seven of the largest US companies, comprising 15% of the global equity market, rose by an average of 50% in the first half of the year. This far outstrips the broader market which, without those seven shares, would have experienced single-digit returns.

In China, investors became increasingly concerned about the country's post-pandemic economic recovery. Weak consumer spending and weak demand for exports resulted in factory output starting to cool. In Japan, where equities hit 33 year highs during the quarter, the central bank chose to maintain its dovish monetary policy stance.

The big picture in Q2

- The second quarter saw several developments and a positive one was the World Bank's support of Vietnam's innovative 'outcome' bonds, whose proceeds would provide a water purification project with roughly \$7m in investment for schools. It aims to improve health outcomes for children and prevent three million tonnes of carbon dioxide emissions over five years, as fuel is typically burnt to purify water in Vietnam.

 - Climate Action 100+, the world's largest investor engagement initiative, has tightened up requirements for signatories and company engagement as it launches its second phase which will run until 2030. Engagement leaders will now be required to prepare objectives, a schedule of engagements, escalation options and how they need support from other investors. There were also tweaks to the companies targeted. We look forward to working within the improved second phase.

 - The UK sewage crisis remains unresolved, with large players like Thames Water struggling to raise investment capital from investors. Several water companies are lobbying Ofwat to allow higher customer bills so that they can invest in the infrastructure necessary to improve their services.

 - Among all the excitement around Artificial Intelligence (AI) following the release of ChatGPT, questions have been raised around its potential for harm as well as good. Sam Altman, chief executive of ChatGPT creator OpenAI, was grilled by lawmakers on Capitol Hill and advocated for regulation and licensing. Until then, this is another conundrum for responsible investors to carefully consider their approach on.
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Market overview Q2 2023

- At the broader market level, the second quarter of 2023 was a robust period for investments, even with central banks raising interest rates. The interest rate cycle may be nearing its end, which is a positive sign for investors.
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- Bond prices fell over the quarter, with UK gilts faring particularly poorly and dropping over 5%. The consolation is that gilts now offer more attractive returns for some investors.
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- Absolute return rose 0.5%. Despite some challenges, such as the -5.8% return in precious metals and -2.2% return in property, other parts of financial markets performed well.
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- Equities had a strong second quarter. North America led the way with a return of +5.4%. The buzz around artificial intelligence meant US technology shares performed particularly strongly.
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- Emerging markets and Japan equities also made solid gains, with returns of +4.0% and +3.0%, respectively. In contrast, UK equities fell -0.5% amid weakness in commodity prices and concerns about the outlook for the Chinese economy.
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- Inflation persisted in the UK and Europe, leading to interest rate hikes by the European Central Bank and the Bank of England. The UK's price cap system has delayed the increase and subsequent decline in energy prices, contributing to the slower fall in inflation. The challenge of finding people to fill jobs has also driven policymakers to consider higher interest rates to dampen consumer demand. The Bank of England's interest rate setting committee must assess whether its actions will be sufficient to bring down inflationary pressures.
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- While risks and challenges remain, the stock market has historically overcome adversity and provided growth for investors. It is important to strike a balance between caution and taking advantage of the market's resilience. Ultimately, excessive caution may lead to regret.
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The value of investments, and any income from them, can fall and you may get back less than you invested.

Sustainable MPS highlights Q2 2023



Asset Allocation

What worked and why?

The underweight to bonds (particularly credit) and the modest underweight to property supported the portfolio over the quarter.

What didn't work and why?

The modest underweight to equities was a small detractor to returns over the quarter. The overweight to absolute return also detracted from performance.

Fund Selection

What worked and why?

Stewart Investors Asia Pacific Leaders was the most significant contributor to returns during the quarter, thanks to its underweight to China where growth disappointed. There were also positive contributions from BNY Mellon Sustainable Global Dynamic Bond, whose defensive position proved beneficial in a quarter that was negative for bonds, and Royal London Sustainable Leaders Trust.

What didn't work and why?

Columbia Threadneedle Responsible Global Equity was the most notable detractor, with its overweights to healthcare and industrials proving a headwind to performance. Schroders Global Energy Transition Fund also had a relatively poor quarter.

Sustainable MPS Portfolio changes Q2 2023

Asset Allocation

In May, the Asset Allocation Committee recommended increasing the allocation to UK gilts. Reductions have been made to absolute return strategies.

Fund Selection

There were no new fund additions or removals in the second quarter.

In May, we reduced our exposure to BNY Mellon Sustainable Global Dynamic Bond. We increased our exposure to Muzinich Global Tactical Credit and L&G All Stocks Gilt Index Trust.

SMPS performance

SMPS PERFORMANCE (%)					
	Q2	2023 YTD	1yr	2yr	2022
Income Portfolio	0.2	3.0	3.6	-4.7	-11.7
Income Higher Equity Portfolio	0.5	3.8	5.5	-3.1	-11.7
Balanced Portfolio	0.7	4.2	6.8	-1.3	-11.5
Growth Portfolio	1.1	5.1	9.1	0.6	-11.6
Global Equity Portfolio	1.7	6.2	11.9	2.8	-11.7

All figures shown above are calculated to 30 June 2023.

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 2023

CT Responsible Global Equity

The CT Responsible Global Equity philosophy is based on three sustainability pillars: Avoid, Invest and Improve.

The strategy avoids companies with damaging or unsustainable products or business practices. CT has stringent screening criteria which are split into two sections: product-based (ethical) and conduct-based (ESG). Product-based exclusions are wider than most and encompass fossil fuels, alcohol, fur, and toxic chemicals, among others. The types of conduct-based issues include human rights, animal testing and welfare, climate change and biodiversity. Every stock is reviewed by the responsible investment team before it can be considered for the portfolio.

Once unacceptable companies have been removed from the universe, the team proactively looks to invest in those companies which make a positive contribution to society and the environment through a combination of the way they operate and the products and services they produce. The team wants to buy high-quality companies which are trading at attractive valuations.

Once invested, the team will use its influence as an investor to encourage best practice management of ESG issues through engagement and voting. Undoubtedly, the team benefits from being part of CT's huge active ownership platform, Responsible Engagement Overlay (REO). This has \$1.1trn of client assets under engagement focusing on seven high level ESG themes: climate change, environmental stewardship, corporate governance, business conduct, human rights, labour standards, and public health. We believe this industry leading engagement capability is a huge differentiator within the sustainable investing space.



Anna Haugaard
Senior Analyst

Funds in focus Q2 2023 continued

Muzinich Global Tactical Credit

The Muzinich Global Tactical Credit fund was launched almost ten years ago. The fund's investment process continues to evolve and now incorporates sophisticated ESG integration and engagement policies. The team's sustainable investment journey started in 2000 with a single mandate that only focused on socially responsible exclusions. The firm has since signed up to the UN Principles for Responsible Investment and the Net Zero Asset Managers Initiative, and has participated in Climate Action 100+ corporate engagements. The work behind these, as well as refinements to investment processes across the firm, has enabled the majority of the Muzinich UCITS funds, including Global Tactical Credit, to be classified as Article 8 under EU Sustainable Finance Disclosure Regulation.

The Global Tactical Credit fund ESG policy combines:

- Industry and conduct based exclusions such as thermal coal, controversial weapons manufacturers and companies that are found to be in severe breach of human and labour rights, international norms on environmental harm and business integrity (corruption, tax evasion etc). The team also aims to promote the transition to clean energy by allocating capital away from companies with high carbon intensity metrics to construct a portfolio with at least 10% lower weighted average carbon intensity than its investable universe.
- Analysis of sustainability risks is an integral part of the fund's fundamental credit analysis. This step embeds analysis of ESG-related risks into its financial research, which then feed into the investment decisions. Freeport McMoran is one of the recent examples where the team identified potential risks stemming from its poor management of environmentally harmful waste, which could lead to increasing legal costs or regulatory fines in the future. Despite the firm's attractive financial characteristics, the team decided not to invest.
- Proactive ESG engagements with companies and policymakers covering a wide range of topics, as demonstrated by some recent examples. In 2022, the team engaged with Singapore Airlines to learn more about its carbon reductions plans and to encourage management commitment. In the same year, the team initiated engagement with DP World on social issues, i.e. the legality of abruptly firing 786 employees, which is still ongoing with the last communication with the company taking place in February this year.



Shakhista Mukhamedova
Head of Fixed Income and Alternatives

ESG reporting for SMPS Income (as at 30 June 2023)

MSCI ESG Ratings

ESG Quality Score **7.0**

MSCI
ESG RATINGS



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 company's 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.

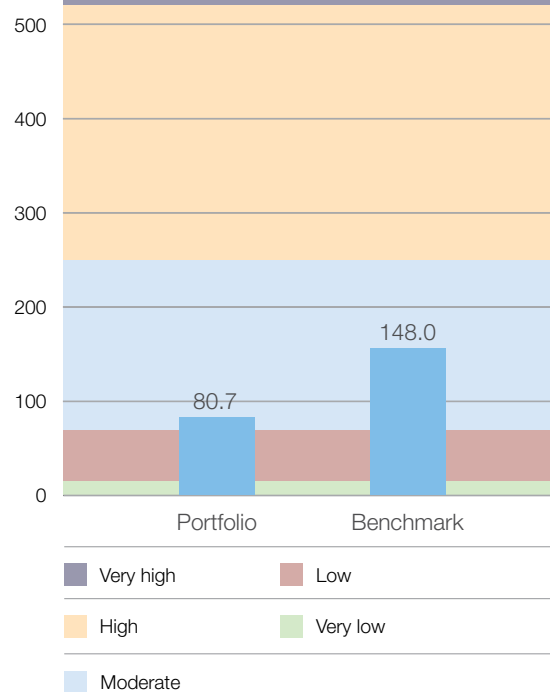
References:

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

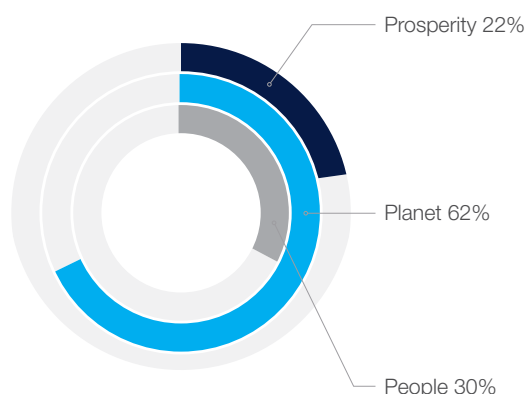
(2) Scope 2: Indirect GHG emissions that occur from the generation of purchased electricity, steam or heat consumed by the company.

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

Carbon Intensity vs Benchmark (TCO₂e / \$m sales)



SDG Alignment



The UN SDG Alignment provides a framework for considering a broad set of 17 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



ESG reporting for SMPS

Income Higher Equity

(as at 30 June 2023)

MSCI ESG Ratings

ESG Quality Score **7.2**

MSCI
ESG RATINGS



CCC B BB BBB A AA AAA

Carbon Intensity

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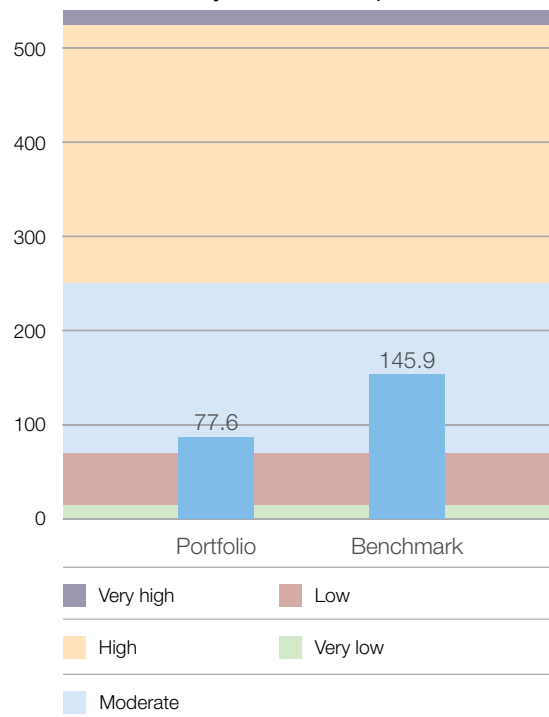
References:

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

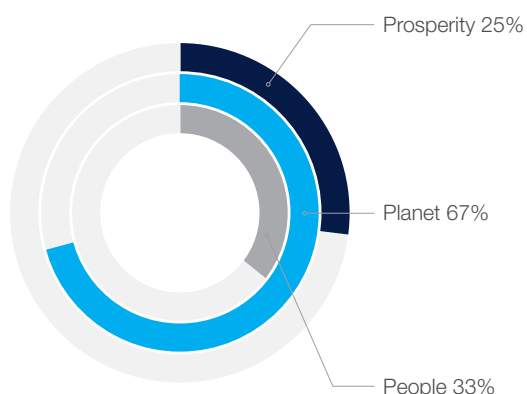
(2) Scope 2: Indirect GHG emissions that occur from the generation of purchased electricity, steam or heat consumed by the company.

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

Carbon Intensity vs Benchmark (TCO2e / \$m sales)



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



ESG reporting for SMPS Balanced

(as at 30 June 2023)

MSCI ESG Ratings

ESG Quality Score **7.3**

MSCI
ESG RATINGS



CCC B BB BBB A AA AAA

Carbon Intensity

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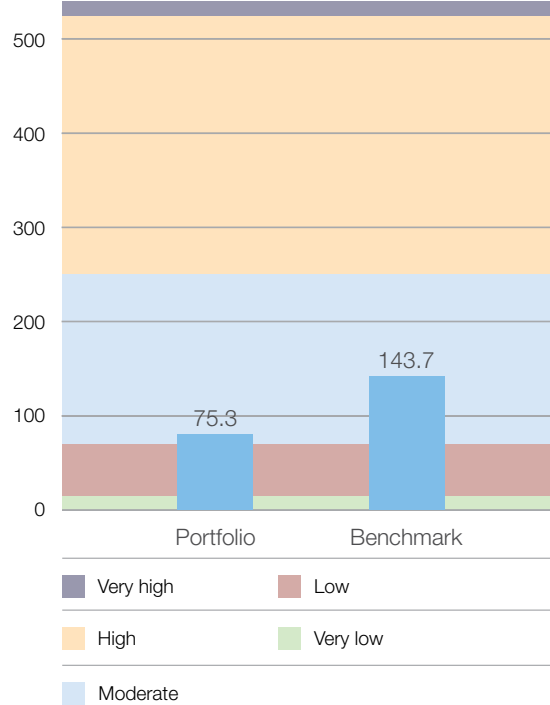
References:

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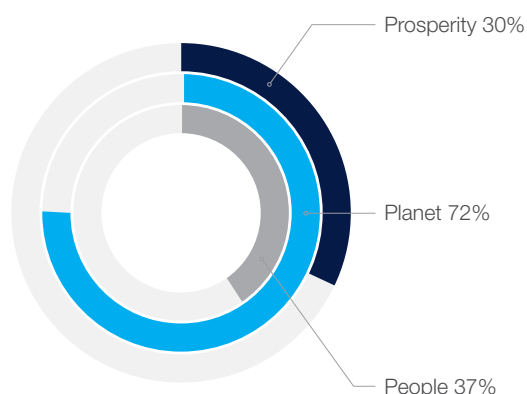
(2) Scope 2: Indirect GHG emissions that occur from the generation of purchased electricity, steam or heat consumed by the company.

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

Carbon Intensity vs Benchmark (TCO₂e / \$m sales)



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



ESG reporting for SMPS Growth

(as at 30 June 2023)

MSCI ESG Ratings

ESG Quality Score

7.4

MSCI

ESG RATINGS

AA

CCC

B

BB

BBB

A

AA

AAA

Carbon Intensity

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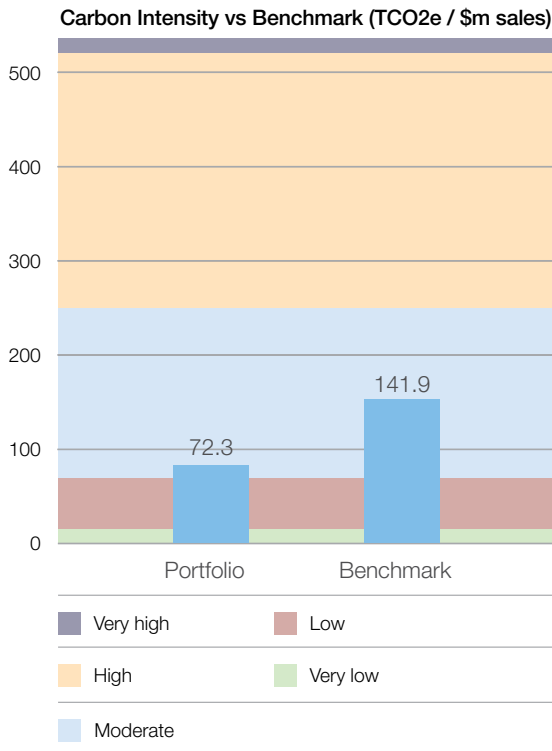
Comparisons of Carbon Intensity figures should be made with caution, as generally companies in the sectors with the highest carbon emissions (such as utilities) also have the highest potential for reducing their carbon emissions. We believe it is important to encourage these reductions in carbon emissions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

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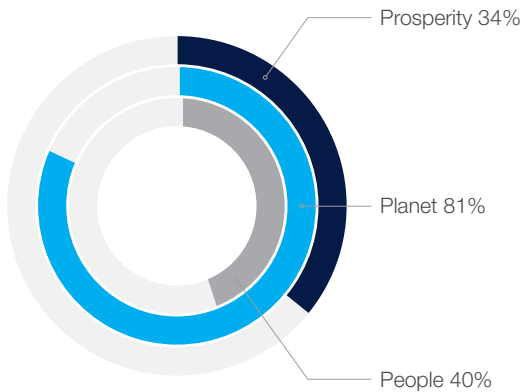
(1) Scope 1: All direct GHG emissions from sources owned or controlled by the company (e.g. emissions from combustion in owned boilers, furnaces).

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

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



SDG Alignment



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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

ESG reporting for SMPS Global Equity

(as at 30 June 2023)

MSCI ESG Ratings

ESG Quality Score **7.7**

MSCI
ESG RATINGS



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

Carbon Intensity

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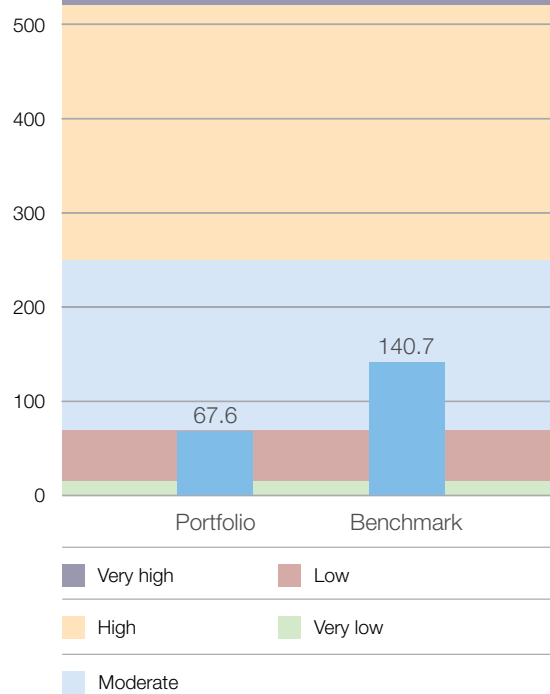
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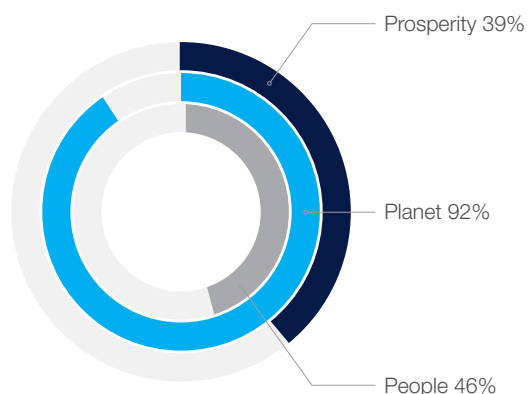
(2) Scope 2: Indirect GHG emissions that occur from the generation of purchased electricity, steam or heat consumed by the company.

Benchmark for comparison: 100% Global equity

Carbon Intensity vs Benchmark (TCO₂e / \$m sales)



SDG Alignment



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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 remain overweight cash. Cash offers an increasingly attractive return and is a desirable asset class at a time when global growth momentum is slowing.



Bonds

We have a moderate overweight to government bonds. It would be surprising to see central bank interest rate expectations move substantially higher. Government bond performance generally moves in a very close inverse fashion with rate expectations. Among our three government bond categories, we favour gilts, in large part due to the UK's interest rate sensitivity. Meanwhile, we remain underweight corporate bonds. In our view, credit spreads are not sufficiently large to compensate for global economic growth risks. Meanwhile, with yield curves deeply inverted and central banks unlikely to start cutting rates any time soon, the risk-free component is unlikely to support corporate bond performance over the next couple of months.



Global Equities

Recession risks are currently elevated – we attach a slightly higher than 50% chance of a recession occurring in the first half of 2024. These odds aren't as high as some forecasters, but they are well above the odds of a recession in any given year. However, due to the uncertainties, it makes sense to perform a scenario analysis and attach weights to different outcomes. On this basis, the equity outlook does not look appealing relative to cash. After adjusting for the fact that equities are higher risk, the relative attraction of cash over equities increases. This thinking underpins our desire to remain overweight cash and slightly underweight equities.



Alternatives

The gold price has historically been inversely correlated with real (inflation-adjusted) bond yields. With this in mind, gold has held up surprisingly well given the surge in real yields over the past 16 months. The reportedly strong buying from foreign official sector purchasers (China, Russia) looking to diversify their reserve holdings probably explains some of the divergence. In our view, real yields are unlikely to go up or down by much over the next couple of quarters. As such, we retain a neutral position to gold. We remain underweight property. Real bond yields should remain elevated (for now), inflationary pressures are weakening, and credit conditions are tightening. We have also reduced our exposure to absolute return to fund our government bond weighting increase.



UK Equities

After strongly outperforming in 2022 (in common currency terms), UK equity relative performance has underperformed the global equity benchmark in common currency terms so far this year. Although strength in the pound versus the dollar has been supportive, value-style stocks have fallen out of favour relative to their growth-style counterparts, a development that tends to weigh on UK equity relative performance given its high exposure to the former. Looking ahead, the outlook for value vs growth equities is balanced, in our view. Meanwhile, the boost to UK equity relative performance that could come from any further gains in the pound appear to be offset by a relatively challenging domestic growth backdrop.



US Equities

With tech looking overbought in the short term, and given the lack of catalysts to push the dollar higher, it's not clear that now is the best time to pile aggressively into the US at the expense of other regions. However, growth in artificial intelligence (AI) looks set to develop into a long-term structural tailwind that benefits the US equity market disproportionately. Against that backdrop, it appears justified to maintain a structural bias to the US, much in the same way that Japan's demographic challenges justify a structurally cautious stance. We're inclined to think that looking for more attractive entry points to add to US equity positions relative to other regions appears to be the best strategy at this stage.



Europe ex-UK Equities

Despite the renewed rally in the euro and broader European FX, Europe ex-UK stocks have not outperformed in common currency terms. That's because the region has low exposure to the names benefitting from the buzz around AI. Globally, when tech stocks outperform, that tends to coincide with Europe ex UK underperformance. Looking ahead, it doesn't appear to be a good time to add exposure to AI plays due to concerns about valuation and the disconnect from bond yields. Equally, given the potential for what currently looks like a mini-bubble to turn into a bigger bubble, one would not want to be underweight these names relative to the global equity benchmark. With this in mind, and given the mixed backdrop for European FX, in our view it makes sense to continue to hold positions in Europe ex-UK that are consistent with it performing broadly in-line with the global equity benchmark.



Japan Equities

In our view, to get the Japanese equity relative performance outlook right, the best approach is to gauge relative economic growth prospects. Looking ahead, Japanese gross domestic product (GDP) growth is likely to outperform US GDP in common currency terms over the near term. First, there appears to be scope for the yen to appreciate vs the dollar. Second, Japan's economy should expand at a reasonable pace at a time when we expect US GDP growth to be sluggish. Against that backdrop, there's probably a window for Japanese equities to continue to outperform. That said, in the long term, with both the population and birth rate in freefall and given Japan's lack of enthusiasm for immigration, Japan's demographics should act as a roadblock to any sustained economic and equity outperformance.



Asia ex-Japan Equities

Contrary to consensus expectations, it does not appear that China is set to slip into a deflation phase. Down the line, while pockets of deflation within the country and in certain sectors are likely, it seems unlikely that the authorities would tolerate sustained, broad-based deflation. Even with the recent growth stumble, it's still not a bad bet that GDP in China and the region more widely outpaces that of the rest of the world over the balance of this year and next. Meanwhile, more and more investors are throwing in the towel on China, with several large banks recently downgrading both Chinese GDP and year-end equity targets. Despite this alluring combination, we are not optimistic with regards to Asia ex-Japan relative performance. It would be surprising to see much additional downside vs the global market, but equally risk/reward doesn't appear to be attractive.



Emerging markets ex-Asia Equities

Brazil, Saudi Arabia, South Africa, Mexico, and the United Arab Emirates are the countries with the highest market capitalisation weightings in the EM ex-Asia equity index, making it very commodity exposed. There are crosscurrents confronting the region. On the one hand, we don't expect much upside to commodity prices in an environment where global growth is slowing and China refrains from large scale stimulus. That said, EM ex-Asia remains very cheaply valued.

RBC Brewin Dolphin is the sponsor, investment manager and distributor to certain funds. RBCBD applies robust conflict management practices and disclosures to ensure these funds and relevant services are appropriate to meet client needs. RBC Brewin Dolphin and its employees do not receive additional remuneration or non-monetary benefits when a client invests in these funds or investment solutions.

The Sustainable MPS model portfolios promote investment into firms with positive environmental, social and good governance characteristics, but they do not have sustainable investing targets. Due to the sustainable focus of this portfolio, there are companies and sectors in which we are unable to invest, meaning the portfolio's performance may be lower than that of an unconstrained investment portfolio with the same benchmark.

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

Neither simulated nor actual past performance are reliable indicators of future performance.

Performance is quoted before charges which will reduce illustrated performance.

Investment values may increase or decrease as a result of currency fluctuations.

Information is provided only as an example and is not a recommendation to pursue a particular strategy.

Information contained in this document is believed to be reliable and accurate, but without further investigation cannot be warranted as to accuracy or completeness.

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