

# Sustainable Managed Portfolio Service

Quarterly report – Q4 2025  
Annual report – 2025



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 2025, but across the entire year.**

A key theme this year was the optimism around artificial intelligence (AI)'s potential to power economic growth, and the associated spending plans of large U.S. tech firms like Microsoft, Alphabet, and Meta.

This spending is designed to support the building of energy intensive data centres that can run modern AI models. These companies now form a significant proportion of global equity markets and so their prospects have real implications for investors' portfolios.

Despite this focus, it was UK and European equity markets that were the strongest performers over 2025. Both were up over 20% and the FTSE 100 index ended the year within a whisker of the psychologically important 10,000 level.

Meanwhile, over Q4, the U.S. Federal Reserve cut interest rates amid speculation over the next central bank chair. Concerns linger about how ready and able the new chair might be in accommodating President Trump's desire for lower interest rates. This could boost economic activity and markets but has the potential to stoke inflation.

# Market overview Q4 2025

- All major asset classes rose over Q4 2025 as markets concluded the year on a constructive note.
- Equities delivered 4.1%, with UK equities leading at 6.6%, closely followed by Developed Europe ex UK at 6.5%. Asia and Emerging Markets contributed 4.2%, whilst Japan returned 3.5%. North America lagged at 2.7%, reflecting relative underperformance versus other developed markets throughout the quarter.
- Alternatives generated 3.9%, driven overwhelmingly by precious metals' exceptional 13.9% return as geopolitical tensions and inflation-hedging demand supported the sector. Other alternatives added 1.4%. Property continued to face valuation headwinds from elevated discount rates and declined 0.6%.
- Fixed Income returned 1.5%, with UK bonds outperforming. UK Sovereign Bonds delivered 3.1% and UK Corporate Bonds contributed 2.7%, benefitting from domestic monetary policy dynamics. Global Corporate Bonds and Global Inflation Linked each returned 0.8%, while Global Sovereign Bonds added 0.5%.
- The quarter demonstrated broad-based gains, with particular strength in UK and European equities. Precious metals' robust performance underscored continued investor appetite for alternative stores of value, while UK fixed income significantly outpaced global counterparts.

# Sustainable MPS highlights Q4 2025



## Asset allocation

### What worked and why?

Markets were up through Q4 2025, and the overweight to equities was a modest tailwind that contributed positively to performance.

### What didn't work and why?

Given their modest performance compared to the rest of the benchmark, the overweight to Global Linkers has been a mild detractor.

## Fund selection

### What worked and why?

The third quarter saw very strong stock selection from both Schroders funds: Schroders Global Sustainable Value and Schroders Global Energy Transition. Royal London Sustainable Leaders also delivered returns that were ahead of the market in the final quarter of 2025.

### What didn't work and why?

The Brown Advisory US Sustainable Growth strategy had a disappointing fourth quarter. Evenlode UK Income ended up behind the benchmark as its focus on companies with strong and stable cashflows trailed a rising market driven by cyclical sectors such as banking.

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

# Sustainable MPS portfolio changes Q4 2025

## Asset allocation

In October, we cut our tactical weight in global sovereign bonds from neutral to slightly underweight and trimmed the size of our overweight to gilts. This results in a modest underweight to the overall bonds asset class, with a continued preference for government bonds over corporates. It also leaves us still favouring gilts over global sovereigns, based on the view that UK inflation will eventually decline faster than in the other regions.

## Fund selection

In October, following the Asset Allocation Committee's guidance, we increased the allocation to cash through the BlackRock Sterling Liquidity fund for all the Sustainable MPS portfolios. We reduced the allocation to the L&G All Stocks Gilt Index and Aberdeen Global Government Bond Tracker funds.

In November, BNY Mellon Sustainable Global Dynamic Bond was replaced with the Aegon Short Dated High Yield Climate Transition Fund. The Aegon fund is a little more volatile, but we expect investors to see higher returns over the medium term.

Secondly, we reduced our holding in Brown Advisory US Sustainable Growth by adding the L&G Future World ESG North America Index. We've worked with L&G to ensure this fund provides an innovative tracking approach that incorporates stewardship to a much greater degree than any other we've seen in a passive fund. It will also help reduce costs for investors.

# SMPS performance

|                           | Q4  | YTD | 1 Year | 2 Year | 3 Year | 4 Year | 2025 | 2024 | 2023 | 2022  |
|---------------------------|-----|-----|--------|--------|--------|--------|------|------|------|-------|
| SMPS Income               | 1.7 | 5.5 | 5.5    | 10.1   | 18.4   | 4.5    | 5.5  | 4.4  | 7.5  | -11.7 |
| SMPS Income Higher Equity | 1.8 | 5.6 | 5.6    | 10.9   | 20.1   | 6.0    | 5.6  | 5.1  | 8.3  | -11.7 |
| SMPS Balanced             | 1.8 | 5.6 | 5.6    | 11.2   | 20.7   | 6.9    | 5.6  | 5.4  | 8.5  | -11.5 |
| SMPS Growth               | 2.0 | 5.7 | 5.7    | 12.5   | 23.1   | 8.8    | 5.7  | 6.4  | 9.4  | -11.6 |
| SMPS Global Equity        | 2.2 | 6.3 | 6.3    | 14.5   | 26.8   | 11.9   | 6.3  | 7.8  | 10.7 | -11.7 |

All figures shown above are calculated to 31 December 2025.

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 2025

## LGIM Future World ESG Tilted and Optimised North America

We believe this fund offers an excellent alternative to the standard S&P 500 tracker funds where investors are looking to improve the ethical and environmental, social and governance (ESG) characteristics of their investments and help mitigate overall climate risk, with company engagement being a key driver of change. The strategy is risk-controlled, with a targeted tracking error of 1% to 2% of the market cap weighted index.

The fund tracks the Solactive L&G Enhanced ESG North America Index net total return, which initially takes the market cap weighted index of around 500 stocks and applies a set of exclusions, which primarily relate to controversial weapons, UN Global Compact thermal coal, tobacco, gambling and adult entertainment. The remaining stocks are then 'tilted' according to LGIM's proprietary ESG scores, in order to allocate more money towards companies that score well from an ESG perspective, and to achieve an immediate 50% reduction in overall portfolio carbon intensity compared to the market cap index. This is followed by a 7% year-on-year decarbonisation in order to reach carbon neutrality or Net Zero by 2050.

The Future World range seeks to go further than just congratulating the companies with the highest ESG scores. The scores are generated from public information and are aligned with LGIM's engagement and voting activities to maximise impact. They will also be public, creating a powerful incentive for companies to improve their behaviour.

The fund also incorporates L&G's Climate Impact Pledge; a targeted engagement programme designed to promote Paris Alignment and Net Zero commitments. LGIM believes in "engagement with consequences". This means that companies falling short of their minimum standards for climate performance and disclosure will be subject to voting sanctions across the entire LGIM managed assets.

Overall, we believe the the LGIM Future World ESG Tilted and Optimised North America fund is a best-in-class option for investors that have wider sustainability in mind.



**Anna Haugaard**  
Senior Analyst

**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.**

## Aegon Global Short-Dated High Yield

The fund is a short-dated high-yield bond fund that aims to achieve a return of 3% over the cash rate (SOFR) per annum, over a three-year rolling period. High-yield bonds generally offer higher returns because of their higher credit risk, and as it's short-dated, the fund will only invest in bonds that will mature in less than 5.5 years.

By focusing on short-dated bonds, the fund aims to lower volatility and provide stronger capital preservation characteristics. By combining the more defensive nature of a short-dated approach with the attractive income potential of high-yield bonds, this strategy can offer investors competitive returns with lower interest rate risk.

The fund has a specific focus on climate transition investments, which allows investors to support companies driving positive environmental change while pursuing their investment objectives.

The fund operates an enhanced exclusions policy, and its proprietary climate framework categorises each issuer in the fund from 'leaders' to 'laggards' in order to identify and engage with its issuers, with the focus of engagement being on issuers categorised as 'unprepared' or 'laggards'.

Engagement topics generally focus on Net Zero targets and progress towards decarbonisation. A recent example of engagement is with a major UK retailer on its climate governance practices, particularly as relating to climate risk management processes and third-party verification of its emissions reporting.

The strategy will also adhere to a carbon reduction target of at least 30% less weighted average carbon intensity than the index.

Overall, the fund has achieved strong returns for the level of risk taken at a competitive price. Its enhanced ESG exclusions and climate transition alignment can help investors looking for a responsible investment solution in the the high-yield universe.



**Michaela Melia**  
Analyst

# Sustainable MPS Income

## 31 December 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 1<sup>1</sup> and Scope 2<sup>2</sup> Carbon Emissions divided by their annual Sales, with a lower score representing less (better) Carbon Intensity.

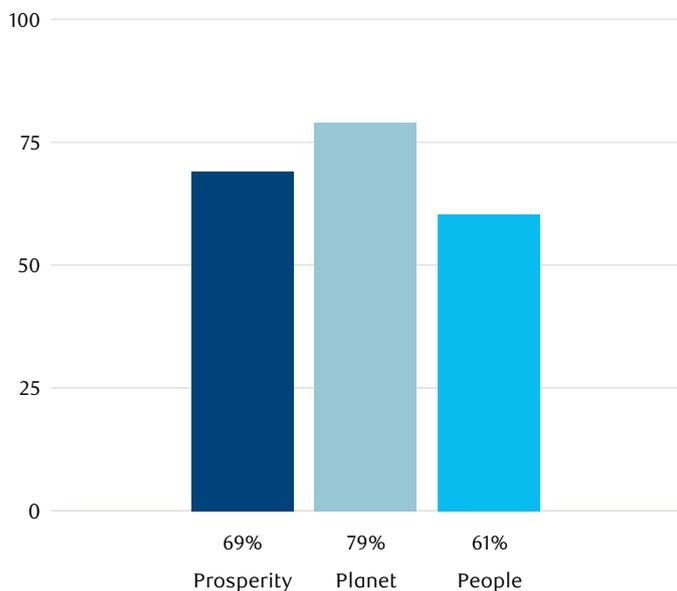
Comparisons of Carbon Intensity figures should be made with caution, as generally companies in the sectors with the highest Carbon Emissions (such as Utilities) also have the highest potential for reducing their Carbon Emissions. We believe it is important to encourage these reductions in carbon emissions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

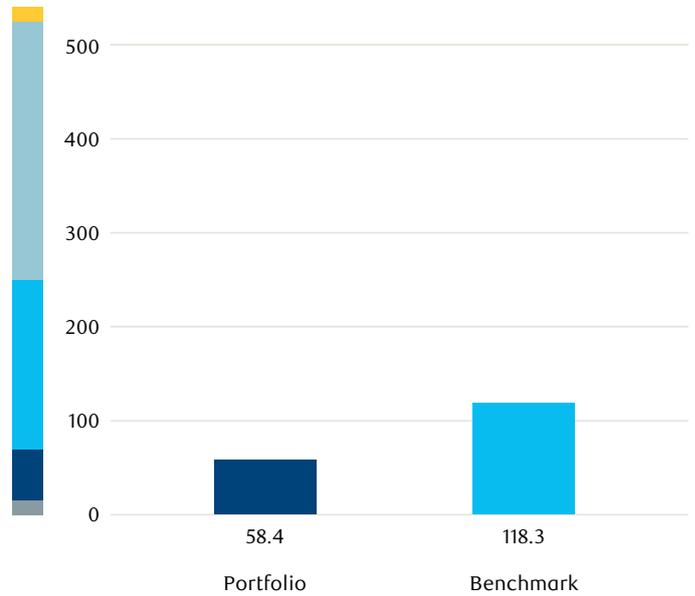
### SDG Alignment



### MSCI ESG ratings



MSCI's ESG ratings are designed to measure a company's resilience to financially material, environmental, societal and governance risks. They are not meant to serve as a measure of corporate goodness, a barometer on any single issue or a synonym for sustainable investing. Certain information ©2022 MSCI ESG Research LLC. Reproduced by permission.



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 2025

## Carbon intensity

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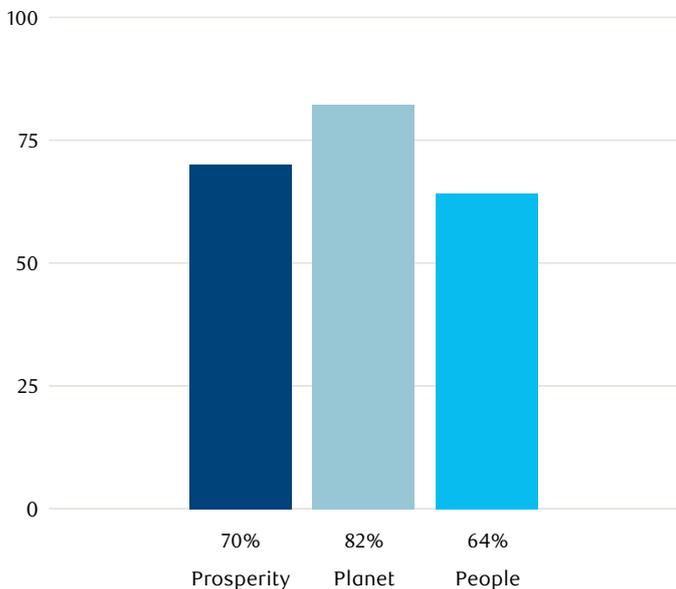
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## References:

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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: 55% Global equity, 45% Global aggregate bonds.

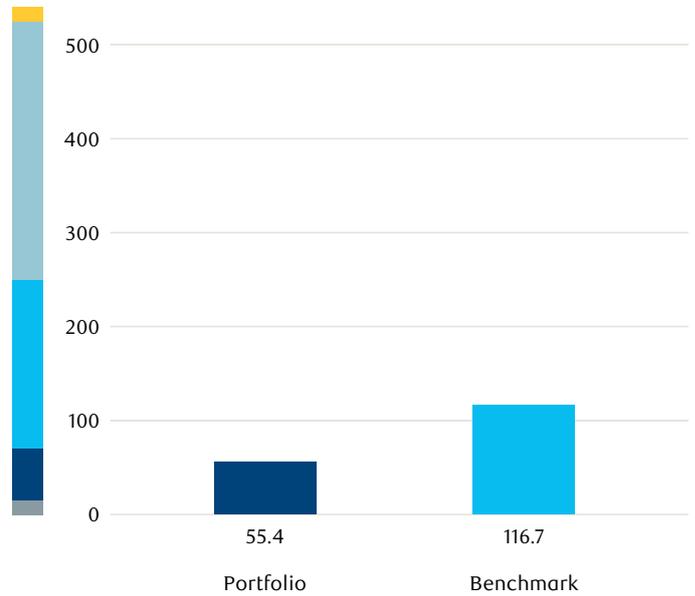
## SDG Alignment



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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



### Planet



### People



# Sustainable MPS Balanced

## 31 December 2025

### Carbon intensity

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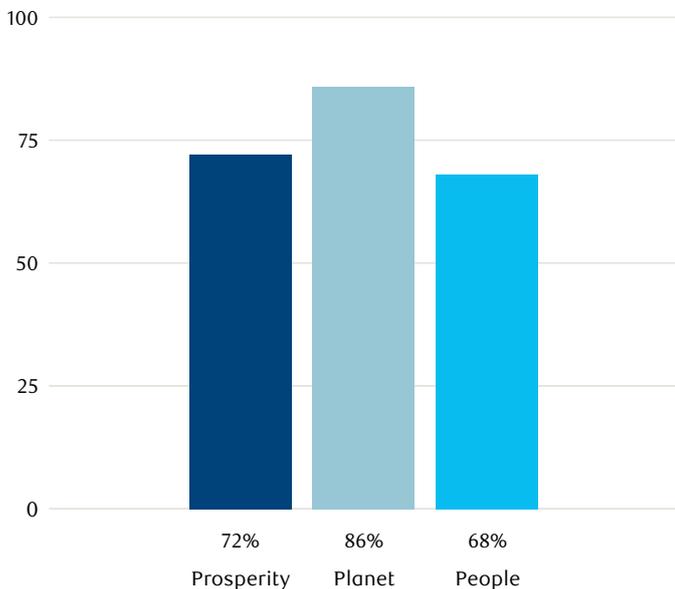
Comparisons of Carbon Intensity figures should be made with caution, as generally companies in the sectors with the highest Carbon Emissions (such as Utilities) also have the highest potential for reducing their Carbon Emissions. We believe it is important to encourage these reductions in carbon emissions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

### 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: 70% Global equity, 30% Global aggregate bonds.

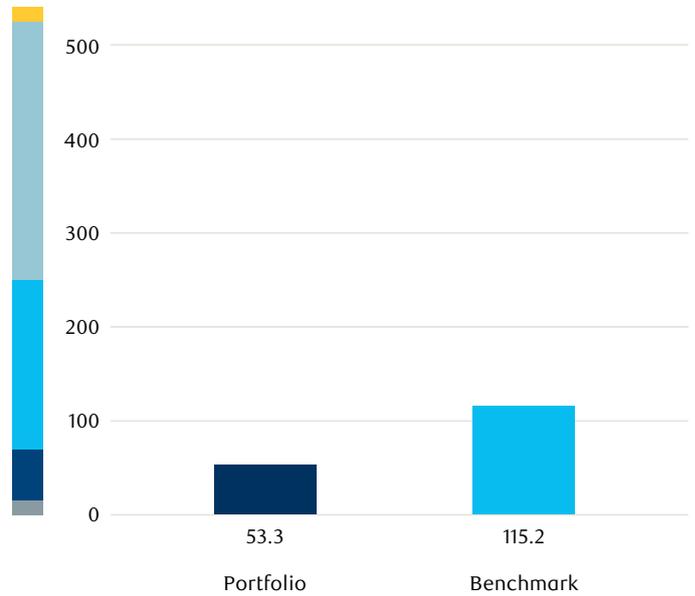
### SDG Alignment



### MSCI ESG ratings



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### Prosperity



### Planet



### People



# Sustainable MPS Growth

## 31 December 2025

### Carbon intensity

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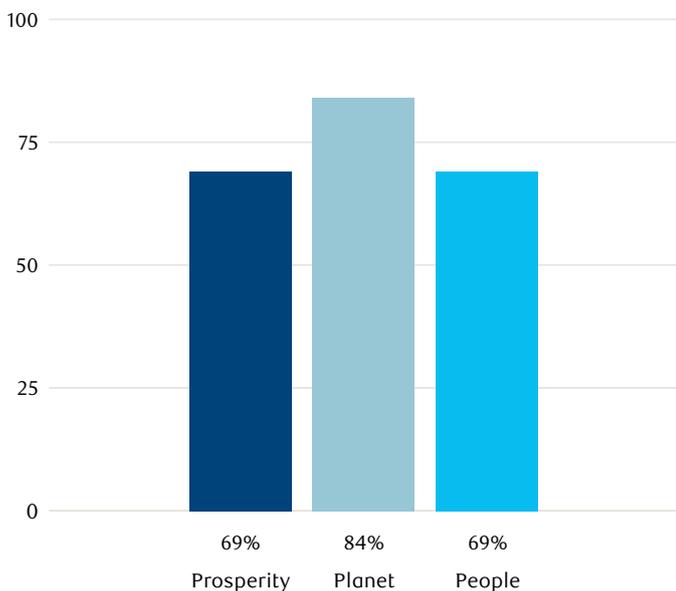
Comparisons of Carbon Intensity figures should be made with caution, as generally companies in the sectors with the highest Carbon Emissions (such as Utilities) also have the highest potential for reducing their Carbon Emissions. We believe it is important to encourage these reductions in carbon emissions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

### 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: 85% Global equity, 15% Global aggregate bonds.

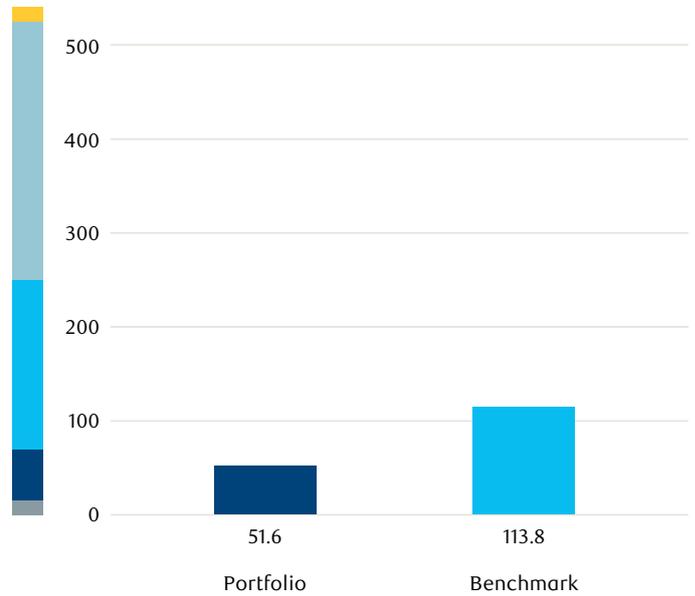
### SDG Alignment



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### Prosperity



### Planet



### People



# Sustainable MPS Global Equity

## 31 December 2025

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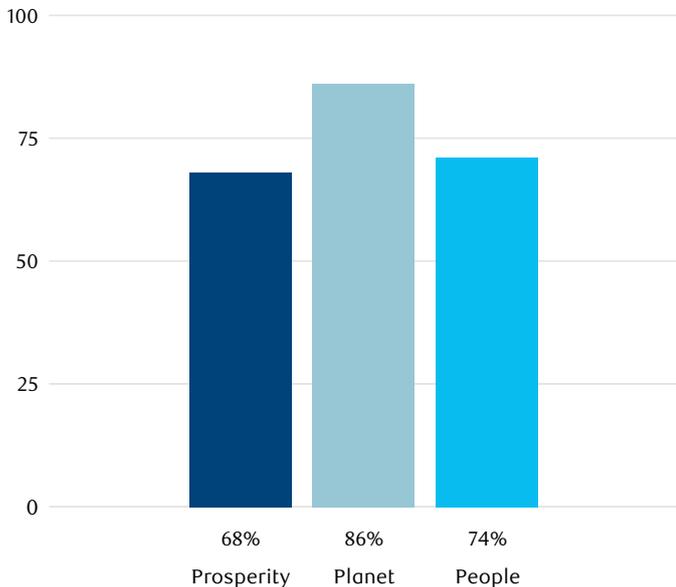
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- (2) Scope 2: Indirect GHG emissions that occur from the generation of purchased electricity, steam or heat consumed by the company.

Benchmark for comparison: 100% Global equity.

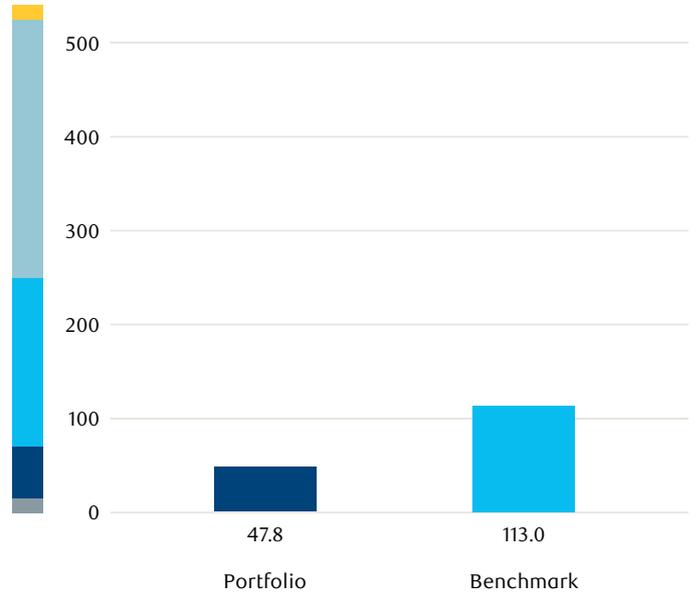
### SDG Alignment



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### Prosperity



### Planet



### People



# Sustainable Managed Portfolio Service

Annual report – 2025



Brewin  
Dolphin

# Sustainability Outlook

## What will 2026 bring?

2025 was a tumultuous year for global markets and politics, with a similarly stormy timeline for the world of sustainable investment. However, as outlined elsewhere in this report, this did not stop sector developments or the growth of the market.

Looking forward, we don't expect challenges to global markets and multilateralism to decrease over the coming year. Linked to this, we anticipate continued headwinds to the sustainability space coming from North America. Crucially, however, we don't expect this resistance to reverse the multi-decadal shift of the global economy to a more sustainable trajectory. The speed of change may slow, but across many sectors, the falling costs of electric vehicles, batteries, and renewables mean that these solutions often remain the most cost-effective options.

We also expect to see a continued focus on how companies and sectors adapt and build resilience into their business models and supply chains. 2025 demonstrated that the physical changes driven by climate change have arrived, and we expect to see more physical impacts of climate change affecting the global economy in 2026, with a corresponding focus from investors on adaptation and resilience.

The mixed results of COP30 in Brazil mean that many eyes will be on the April 2026 international conference, in which the 'Coalition of the Willing' will attempt to drive change outside of the formal UN process.

In the UK, we don't expect dramatic changes to the sustainable investment space in 2026 but anticipate continued developments as the government pushes companies and the economy towards the Net Zero 2050 goal. From January 2026, listed companies must include a transition plan if climate risks are material, and the government is consulting on new Sustainable Reporting Standards (SRS).

## Evolving our approach to responsible and sustainable investment

RBC's Purpose is to help our clients thrive and communities prosper, and our approach to responsible and sustainable investment is one way that we bring our Purpose to life.

Our approach to responsible and sustainable investment hasn't changed. We made some alterations to our Responsible and Sustainable Investment Framework to ensure alignment with regulations and client expectations, but our investment philosophy remains the same.

Stewardship is still an essential part of our responsible investment approach, and we will report on our stewardship activities in spring 2026 so ensure we remain signatories to the updated 2026 Stewardship Code.

## Our own operations

RBC remains committed to reducing emissions associated with our operations and supply chain.

In 2024, we reduced global emissions from our operations by 63% relative to our 2018 baseline. In the same year, we met our goal of sourcing 100% of our electricity from renewable sources. This was achieved by sourcing energy attribute certificates (EACs), in line with RE100 Principles, such as renewable energy certificates (REC), and power purchase agreements (PPAs).

For more details on our approach please refer to the [RBC Sustainability Report](#).



**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 2025 engagement, we reached out to 32 fund houses, covering 68 funds and 63 underlying companies. The objective remains consistent with previous iterations: understanding how the funds are taking the misalignment into account, and how their stewardship policies and commitments feed into their approach, specifically around climate.

## Vote alignment

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 our Quarterly Stewardship updates). We therefore expect the same level of transparency from our fund managers, and asked 36 of them for their rationales on meetings we deemed to be significant or controversial over 2025. 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 three controversies that we felt warranted further engagement. In total, we made contact 19 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: Deforestation in the supply chain

Earlier in the year, we were alerted to planned deforestation by palm oil producers in Indonesia. Given that the company in question is linked to the supply chains of many consumer goods companies, including Procter & Gamble, Nestle and Unilever, we felt it necessary to engage. We reached out to the fund managers that are holders of Procter & Gamble, asking for their take on the situation and if they have engaged. We received in return strong responses demonstrating their engagement and understanding of the issues.

Overall, managers remain comfortable with Procter & Gamble's approach on deforestation, and we were pleased to see their ESG integration and assessment in action.

This has complemented other work we have undertaken on deforestation, assessing many of the companies within our nominee for deforestation risks. This work will help us in the coming year to not only engage with those companies directly, but give us additional information to use in the monitoring of our third party fund managers, including those within Sustainable MPS.

## Reaffirming our priorities for 2026

Our stewardship priorities, introduced in 2024, have continued to help us allocate our finite resources in the most efficient and effective way possible. Climate, nature, human rights and governance were selected as priorities 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. Over the past year, we have engaged on topics including climate change, diversity, deforestation, human rights in the workplace and remuneration, and these priorities will remain in place for 2026.

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 2025

- Despite the focus on the large tech firms, it was UK and European equity markets that were the strongest performers over 2025. Both were up over 20%, while weakness in the U.S. dollar meant that the U.S. was lagging – but still up a respectable 10%.
- Bonds rose 5% over the year, with those issued by companies outperforming government bonds.
- Gold shone over 2025. It rose over 13% in the final quarter alone, bringing the rise for the year to over 55%. Our strategic overweight position in gold, together with our bond exposure, has particularly supported lower-risk portfolios.

# Sustainable MPS highlights 2025



## Asset allocation

### What worked and why?

The overweight position to equities was positive in a year that saw returns of greater than 15%. 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?

Being underweight corporate bonds was unhelpful. The small overweight position to U.S. equities was a small detractor over a year that saw other equity markets perform better.

## Fund selection

### What worked and why?

Across equities, the two Schroders funds were outstanding performers. Schroders Global Energy Transition delivered nearly 30% returns, rebounding from low valuation levels following poor performance in the previous year, justifying our decision to remain invested in the strategy. Schroders Global Sustainable Value also performed strongly as value stocks had a strong year in 2025. Trium ESG Emissions delivered solid performance, with its stock selection being the key driver.

### What didn't work and why?

Value stocks performing well meant that growth stocks languished. This means that funds invested into growth stocks detracted from performance. The most significant detractor was Brown Advisory US Sustainable Growth. Evenlode UK Income also lagged as its quality defensive style wasn't suited to a market that saw cyclical and financial companies deliver the strongest gains.

# Sustainable MPS portfolio changes 2025

## Asset allocation

In Q1, the Asset Allocation Committee closed the tactical underweight on European equities as President Trump's tariff agenda expanded globally, shifting the portfolio from a U.S. overweight to a more balanced stance.

In Q2, the Committee moved U.S. equities from overweight to neutral, reallocating the freed capital to cash and Europe ex UK equities. Within fixed income, UK gilts were increased while global sovereign and index-linked bond exposures were reduced.

In Q3, following the U.S. announcement of new tariffs with the potential to stoke inflation, the Committee raised the overweight on global inflation-linked bonds and cut the overweight on global conventional government bonds to neutral.

In Q4, the tactical weight in global sovereign bonds was shifted from neutral to slightly underweight, and the gilt overweight was trimmed.

## Fund selection

In Q1, we made changes within the equity components of the portfolios, increasing areas with greater levels of European exposure and decreasing the U.S. exposure in the portfolios. This was done through increasing the Schroder Global Energy Transition and Evenlode Global Income funds, and reducing the Liontrust US Sustainable Future Growth fund. Bluebay Impact Bond fund was also introduced as a replacement for RobeccoSAM Global SDG Credits, which saw departures in the investment team.

In Q2, the BlackRock Sterling Liquidity fund was increased as a means to reduce risk while reducing equity exposure through a combination of CT Responsible Global Equity and Schroder Global Sustainable Value funds.

In May, we adjusted the bond components by increasing the weighting to UK gilts in line with our Asset Allocation Committee's guidance; this was done through our holding in L&G All Stocks Gilt Index. This was funded from reductions in L&G Global Inflation Linked Bond Fund and ASI Global Government Bond Tracker.

In Q3, following the Asset Allocation Committee's guidance we decreased the exposure to Global Sovereign Debt by 0.5% while adding it to Global Index Linked by the same amount.

In Q4, we increased the allocation to cash through the BlackRock Sterling Liquidity fund, reducing the allocation to the L&G All Stocks Gilt Index and Aberdeen Global Government Bond Tracker funds. The BNY Mellon Sustainable Global Dynamic Bond was replaced with the Aegon Short Dated High Yield Climate Transition Fund.

Finally, we reduced our holding in Brown Advisory US Sustainable Growth by adding the L&G Future World ESG North America Index.

# 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

### Republic Services – held by Pictet Environmental Opportunities

Republic Services collects hazardous, non-hazardous and speciality solid waste, playing an important role in supporting the circular economy. Poor waste management poses a threat to the environment, resulting in air pollution, contaminated water and soil, and disease and infection. Republic Services seeks to provide solutions to these problems through waste transport and recycling. The company handles the waste it collects in a variety of ways, including recycling and transforming it into energy. When organic material decomposes in landfills, biogas is generated; approximately 50% of this is methane – a potent greenhouse gas. Republic Services uses this biogas for clean energy production. For example, landfill gas is used to generate energy for the public utility grid. It can also be transformed into renewable natural gas, facilitating the decarbonisation of vehicles. The company has announced a joint venture with Archaea Energy to develop approximately 40 renewable gas projects across the U.S. over the next few years.

### Shimadzu – held by NinetyOne Global Environment and Evelode Global Income

Shimadzu is a global leader in analytical and measuring instruments (AMI) and vacuum technology. The AMI business enables the research and development of many decarbonisation technologies. Its products can also detect substances that contribute to climate change or cause other environmental harm. Shimadzu's vacuum technology enables the manufacturing of leading-edge semiconductors, which can improve the energy efficiency of data centres, and solar cells, which directly contribute to decarbonisation.

## Alignment to supporting people

### Duolingo – held by Baillie Gifford Positive Change Fund

Duolingo's mission is to develop the best education globally and make it universally available. Having started with a fun and engaging app to help people learn languages, it has since moved into English language testing and other subjects like maths, music and chess. Through further content and product development, aided by AI, Duolingo aims to grow the user base and, importantly, increase the paid conversion rate. The company is led by its co-founder, Luis von Ahn, who we believe will strike the right balance between delivering on the mission and improving monetisation.

### McGraw Hill – held by Bluebay Impact Bond Fund

McGraw Hill is a U.S. education science company providing educational content, software, and services for students and educators across various levels – from K-12 to higher education and professional learning. McGraw Hill reported in its 2025 Impact Report that it's focused on:

- Environmental sustainability: 95% of its directly purchased paper in the U.S. is chain-of-custody certified, and it has reduced its office footprint by over 50% since 2013.
- Employee engagement: Through 'Red Cube Cares', employees participate in global volunteer events to support education and communities.
- Inclusion: McGraw Hill maintains employee resource groups (ERGs) like Cultura and BLACK @ McGraw Hill to foster an inclusive culture.

## Alignment to supporting prosperity

### Standard Chartered – held by Schroders Global Sustainable Value Fund, Royal London Sustainable Leaders Fund and Muzinich Global Tactical Credit Fund

Standard Chartered's impact on prosperity is centred on its purpose to "drive commerce and prosperity through our unique diversity". This is done by primarily focusing on fostering economic growth, trade, and financial inclusion across Asia, Africa, and the Middle East. The bank operates under the brand promise 'Here for Good', aiming to generate long-term wealth, support sustainable development, and improve financial wellbeing.

Standard Chartered's Sustainable Finance Impact Report highlights that 91% of its sustainable finance assets are in emerging markets, where its funding has a disproportionately positive impact on reducing carbon emissions and driving economic development.

### Paylocity – held by Liontrust US Sustainable Future fund

Paylocity is a Human Capital Management (HCM) software provider. Its products enable its customers, which are primarily small businesses, to manage the increasingly complex demands of employee management. It is the technology leader in an environment that's becoming increasingly complex due to the sheer scale of differing tax jurisdictions for employees across the U.S. It provides a pure Software as a Service (SAAS) offering, which builds on a single data entry for each employee and connects to Paylocity's sophisticated algorithm to solve tax and pay deductions efficiently.

It contributes to a sustainable economy by ensuring businesses accurately collect taxes and pay their employees on time. Its simple technology offering is also targeted towards small and medium Businesses (SME's), allowing this potentially complex task to be simplified and outsourced effectively. This ensures smaller business owners can focus on running their business and servicing their customers, confident their employees are being paid and taxed correctly and on a timely basis.

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

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



## Bonds

Our sense is that there's a greater risk that global bond yields rise rather than fall from current levels. In Japan, slightly more pro-growth fiscal policy settings should help further solidify the re-emergence of inflation, eventually leading to additional Bank of Japan rate normalisation and further upside in Japanese government bond yields. In Europe, improving region-wide growth momentum should keep pushing government bond yields higher, while French bonds probably deserve to be trading on a bigger risk premium given the political backdrop and ugly debt arithmetic. In the U.S., in our base case scenario – which sees economic growth slow, but not excessively – there's limited room for Federal Reserve rate expectations to move lower. Meanwhile, we expect the U.S. term premium and inflation expectations to rise. We expect gilts to build on recent outperformance as relatively high UK inflation eases. We continue to favour government bonds over corporate bonds. With spreads tight, and given our desire to stick with a small equity overweight, our bond positioning acts as a partial portfolio hedge against recession risk.



## Global Equities

We expect the global economy to continue to expand, which is consistent with corporate profits going up. We also believe there's the potential for AI themes to drive both strong economy-wide productivity and continued solid profit gains among the AI pick and shovel plays. However, we believe only a small equity overweight is appropriate. For one, most economies are close to full employment and there isn't much scope for labour force participation to rise. Meanwhile, U.S. President Trump's immigration clampdown is weighing on the country's labour force growth. The upshot is that there's limited room for job growth. Further, U.S. equity valuation multiples, concentration risk, and growth expectations are all elevated, and signs of froth (a market condition where asset prices surge rapidly, becoming inflated and detached from their actual fundamental value) among the AI plays have emerged. Finally, the large increase in U.S. tariffs should weigh on global growth and result in higher U.S. inflation than would otherwise be the case.

## Alternatives

We have positioned portfolios underweight in Alternatives as typically diversifying assets with lag both equities and bonds in benign conditions. While there are elevated risks coming from geopolitics our central view is that growth will continue supporting further appreciation in stock markets.

## UK Equities

UK relative performance should continue to be closely linked to global value vs growth style performance, given its relatively high weightings in value-oriented sectors such as financials and commodities, and low exposure to growth-oriented sectors such as tech. Some exposure to the value plays that the UK is so heavily weighted in is appropriate, in our view. Although the domestic economic outlook is less important for UK equity relative performance given the high international exposure of the names that make up the UK large cap index, it still matters. Indeed, there's a positive relationship between the performance of UK vs global gross domestic product (GDP) and UK vs global equity performance. The UK economic growth outlook appears lacklustre. This is offset somewhat by the fact that the UK equity market trades on very undemanding valuation multiples.

## U.S. Equities

The U.S. should maintain the productivity growth advantage it has enjoyed against the rest of the developed world. Meanwhile, the U.S. equity market has outsized exposure to surging demand for AI goods and services. Nevertheless, we hold a tactical neutral position in the U.S., for several reasons. There are signs of froth around the AI plays. While we believe that AI will be a transformative technology, there are lingering questions about whether the returns generated by providers of AI services will be high enough to justify both the massive levels of investment in the space, and the extended valuations the AI pick and shovel plays trade on. In addition, the S&P 500 (excluding the 'Magnificent Seven') also trades on a large price-to-earning premium to the world ex U.S. market. Furthermore, our sense is that the dollar has scope to decline further over the medium and/or longer term. A weak dollar would weigh on U.S. equity relative performance in common currency terms. Weaker labour force growth due to the Trump administration's immigration clampdown and the potential for tariff-related pain are additional concerns.



### Europe ex UK Equities

We remain modestly overweight Europe ex UK. The region's valuation metrics are significantly less demanding than those of the U.S. The euro exchange rate remains cheaply valued vs the dollar relative to estimates of the purchasing power parity conversion rate, suggesting it has scope to strengthen further over the longer term. If correct, that would support Europe ex UK equity relative performance in common currency terms. We expect only modest corporate profit growth given subdued European economic growth prospects, but a big boost to German defence and infrastructure spending should help close the growth gap with the U.S. somewhat. Europe would also perform relatively well if some of the hot air comes out of the AI trade, as the region has relatively low exposure to it.



### Japan Equities

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



### Asia & EM ex Japan Equities

China continues to battle multiple structural headwinds. That said, various revelations this year in areas like AI and electric vehicles have served as good reminders that China excels at innovation. Chinese productivity growth has been much stronger than that of any other major country over the years, and that's likely to remain the case going forward. In addition, there's been a thawing in the relationship between the Communist Party of China and big business. Finally, with deflation a much bigger risk than inflation, there's lots of scope for the authorities to pursue more stimulative monetary and fiscal policy. In Asia ex Japan more broadly, we are drawn to the structural growth that India offers, not least because it's still at a very early stage of development, with lots of upside. Another attraction is Taiwan and the exposure to semiconductors it brings, which can be bought more cheaply than the U.S.-exposed names. South Korea also has relatively high AI exposure, particularly in memory, and that market also trades on relatively low valuation metrics.



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