Sustainable Managed Portfolio Service

Quarterly report – Q1 2026

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 in the first quarter of 2026.

Markets started the year strongly. January and February saw bonds, equities, and gold continue their upward trends from 2025.

Late February brought a sharp change as Israel and the U.S. launched military strikes on Iran. The conflict disrupted energy supplies through the Strait of Hormuz, pushing oil and gas prices significantly higher. This put upward pressure on inflation expectations.

Bond prices fell on these concerns. We were underweight bonds and overweight cash, which helped cushion the impact.

Meanwhile, equities but have not priced in a serious hit to economic growth. If conflict persists and energy deliveries remain disrupted, growth will suffer. A swift resolution would provide relief for markets.

By quarter end, U.S. and European equities were down, but Asian and emerging market equities were up. Gold's multi-year rise was briefly interrupted but remained positive in sterling terms over the quarter. If geopolitical risks escalate further, we'd expect the metal to rally again.

Market overview Q1 2026

- In contrast to the broad positive returns over 2025, the first quarter of 2026 proved more challenging.
- Equities were mixed, North America slipped -2.6% and Developed Europe ex UK declined -2.2% but the UK, Japan, Asia and emerging markets all rose (2.8%, 3.4%, and 2.2% respectively).
- Alternatives rose over the quarter. This was driven mainly by gold, which rose over 7% (despite volatility in March), and property, which was up almost 3%. Absolute return slipped 0.4% over the quarter.
- UK bonds were relatively weak, with UK Gilts and Corporate Bonds falling -1.9%. Global Bonds fared somewhat better, with Global Corporate Bonds declining -0.5% and Global Sovereign Bonds falling a modest -0.3%. Meanwhile, Global Inflation-Linked Bonds climbed 0.9% as inflationary pressures rose.

Sustainable MPS highlights Q1 2026

Asset allocation

What worked and why?

Over Q1, the overweight positions to Asian and Emerging equities and global inflation-linked bonds were mild contributors.

What didn't work and why?

The overweight to equities was the most significant detractor. AI displacement fears and attacks on Iran by the U.S. and Israel triggered successive shocks to send equity markets lower.

Fund selection

What worked and why?

Energy transition-related strategies contributed positively to performance. This is because the renewable energy supply chain is a potential beneficiary as the world looks for substitutes to fossil fuels, which have seen an increase in price this quarter.

Schroder Global Sustainable Value was the most significant contributor as value stocks did particularly well early in the year. Market fears around AI disruption to software and other business models proved a headwind for growth stocks.

What didn't work and why?

The two most significant detractors were Evenlode Income and Brown Advisory US Sustainable Growth.

The former underperformed as UK midcaps significantly underperformed large caps, which have more exposure to oil, commodities and consumer staples – sectors that did particularly well on the outbreak of fighting in the Middle East.

The latter suffered with exposure to companies that derated on fears they may be disrupted by rapidly developing AI.

Sustainable MPS portfolio changes Q1 2026

Asset allocation

In the January 2026 investment committee meeting, we reduced our overweight position in UK Gilts by 0.5% on the basis that gilt prices were looking less attractive than a few months ago. We moved that money into global sovereign bonds.

We also increased our gold allocation by 0.5% (now 1% overweight), which was funded by reducing cash holdings.

Fund selection

In January, changes were made to follow the Investment Committee's guidance. L&G All Stocks Gilt Index Trust was reduced and ASI Global Government Bond Tracker increased. Gold isn't held in the Sustainable portfolios, so we have increased the L&G Global ex UK Inflation-Linked Bond fund, reducing cash held in the BlackRock Sterling Liquidity fund.

February saw the replacement of the Stewart Asia Pacific Leaders fund with the L&G Future World Emerging Market fund. This fund offers cost-effect exposure and excellent stewardship while remaining consistent with SMPS' investment exclusions.

In March, we increased the allocation to the L&G Future World ESG Tilted & Optimised North America Index Fund, reducing the allocation to Brown Advisory US Sustainable Growth.

Funds in focus Q1 2026

CT Responsible Global Equity

The CT Responsible Global Equity Strategy is a best-ideas portfolio of global equities focused on sustainability-orientated themes. Overlaid with focused active ownership activities, the strategy's ambition is to drive positive impact as well as investment performance. The managers achieve this using their Avoid, Invest, and Improve framework. 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. Undoubtably, the team benefits from being part of CT's large active ownership platform, Responsible Engagement Overlay (REO). The platform focuses 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. The CT Responsible Global Equity has an SDR Sustainable Focus Label. To satisfy the criteria for this label the fund will have between 70% and 90% of investments in those the manager deems sustainable.

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.

Schroder Global Alternative Energy

The Schroder Global Alternative Energy fund has an SDR Sustainable Focus Label. Its sustainability objective is to invest in companies that the investment manager assesses as making a positive contribution to the global transition to lower carbon sources of energy, such as companies involved in lower carbon energy production, distribution, storage, transport and the supply of related materials and technology. These are companies that either (1) generate at least 50% of their revenue from activities associated with the transition; or (2) meet the investment manager's criteria for performance of a 'critical role' in the transition. As of 31 December 2025, the Fund was meeting its sustainability objective. The Fund held 90.30% of its portfolio in assets that the investment manager has classified as sustainable.

One of the reasons we selected this particular clean energy fund is that lead portfolio manager Mark Lacey and his team are dedicated energy sector specialists who have extensive experience within the entire industry, spanning environmental technology and conventional energy. The fund provides a focused thematic exposure to the best-performing companies involved in new clean energy systems. It targets strategic industries and emerging technologies integral to the global shift to cleaner energy, seeking opportunities across key value chains, including renewable energy, transmission and distribution, energy storage, and energy services and equipment. The fund's mandate is very well-defined, such that it will not invest in companies involved in fossil fuels or nuclear energy, nor those who have large indirect exposure to these industries via end markets. Crucially, the focus will be kept on the energy system and the associated technologies needed to enable its change. This means the fund will only invest in companies involved in the production and distribution of clean energy, the management of energy consumption, or the production of materials and technologies required to facilitate these activities. Therefore, it does not invest in companies with more generic end uses, such as semiconductors. Examples of the types of business operations that fall within the investment universe includes wind and solar equipment, residential solar, energy storage and battery solutions, grid operators, electrical cable makers, electrical vehicle infrastructure including charging points, and smart metering.

Anna Haugaard
Senior Analyst

Sustainable MPS Income
31 March 2026

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.

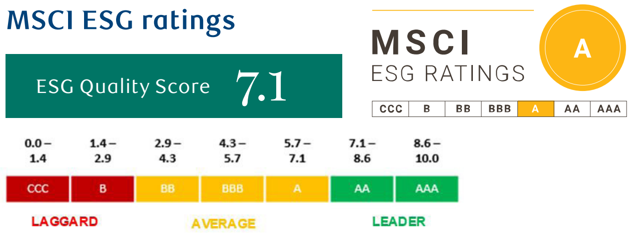
References:

(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.

MSCI ESG ratings



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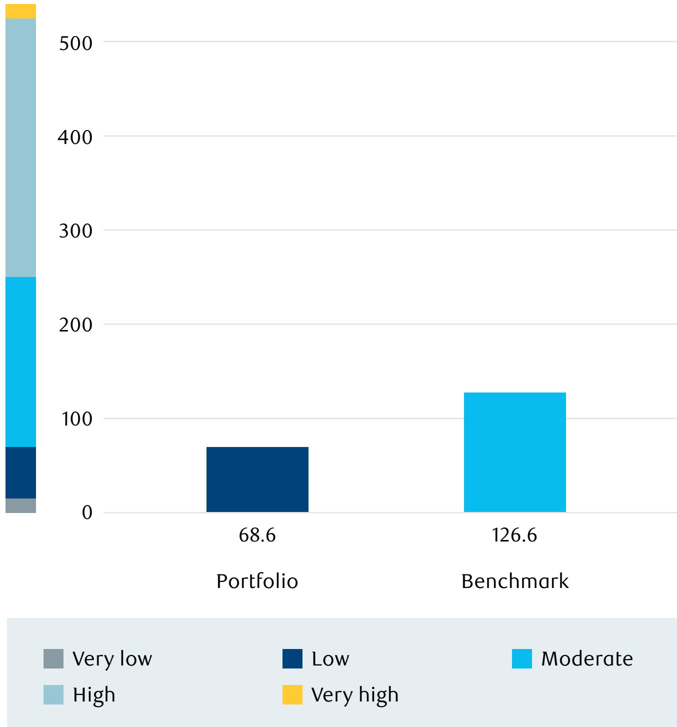
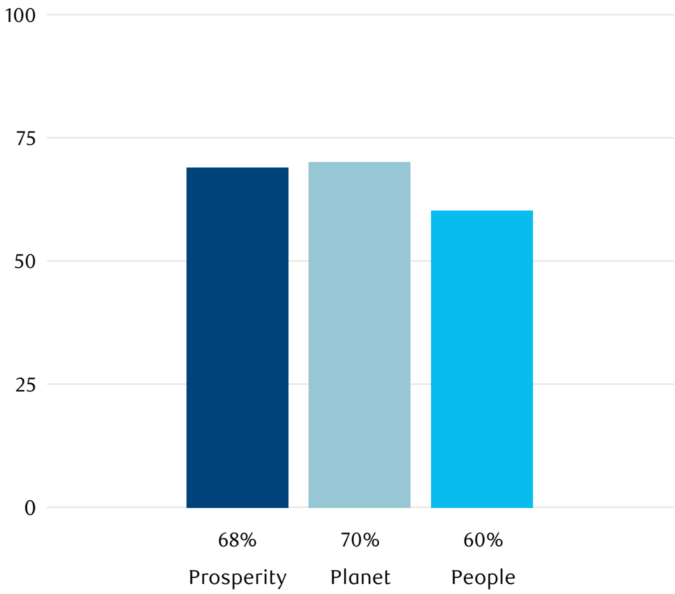


SDG Alignment



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

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

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

Prosperity

Planet

People

Sustainable MPS Income Higher Equity 31 March 2026

Carbon intensity

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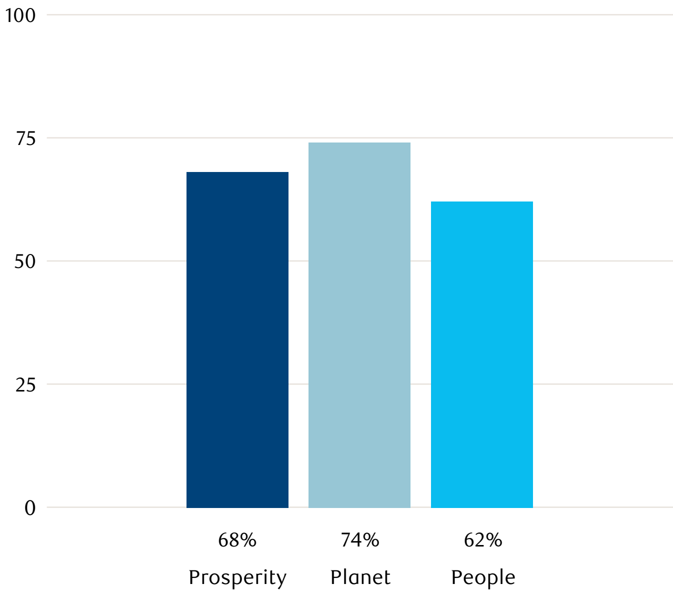
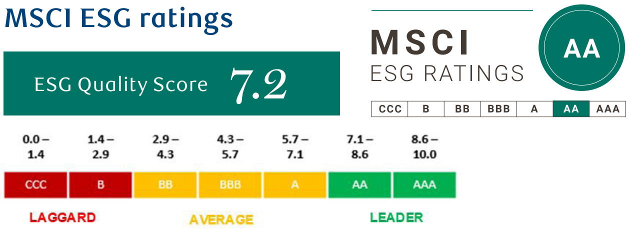
Benchmark for comparison: 55% Global equity, 45% Global aggregate bonds.

SDG Alignment



MSCI ESG ratings



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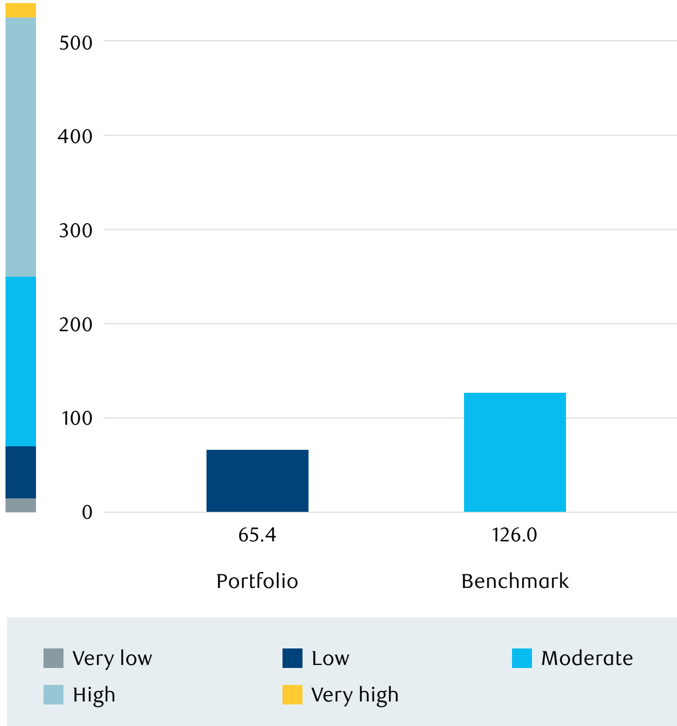

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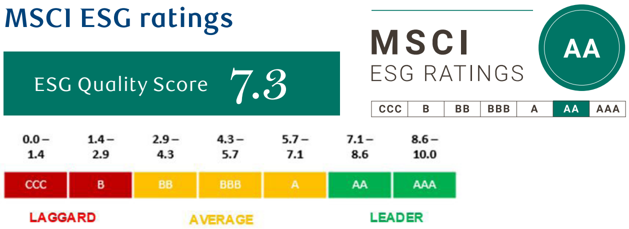
Prosperity

Planet

People

Sustainable MPS Balanced
31 March 2026

MSCI ESG ratings



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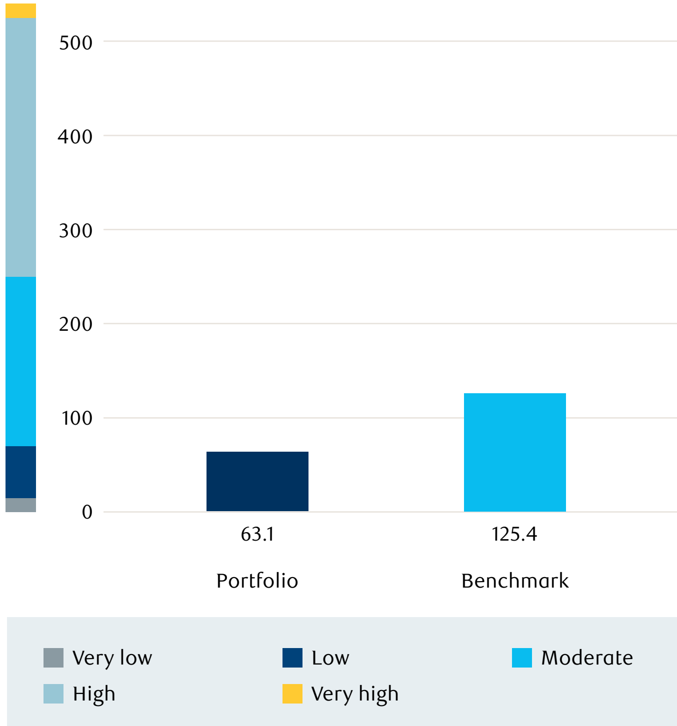

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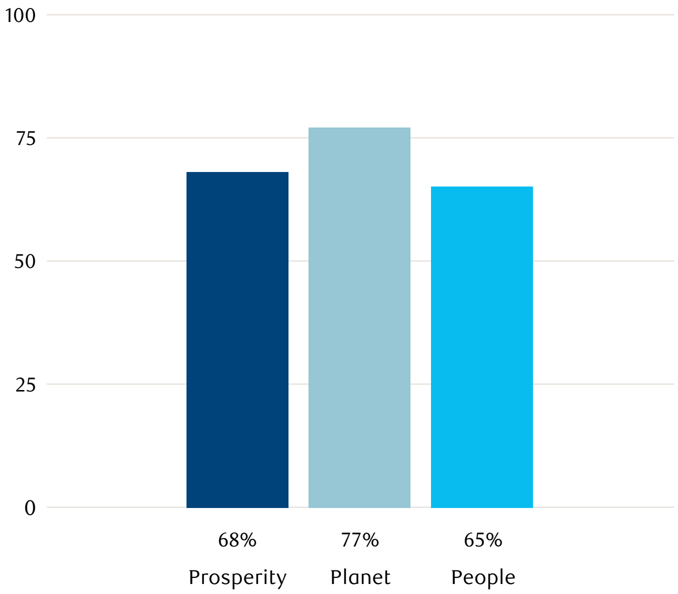
(2) Scope 2: Indirect GHG emissions that occur from the generation of purchased electricity, steam or heat consumed by the company.

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

SDG Alignment



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Prosperity

Planet

People

Sustainable MPS Growth
31 March 2026

Carbon intensity

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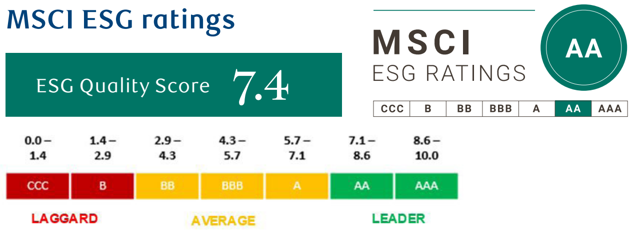
Benchmark for comparison: 85% Global equity, 15% Global aggregate bonds.

MSCI ESG ratings



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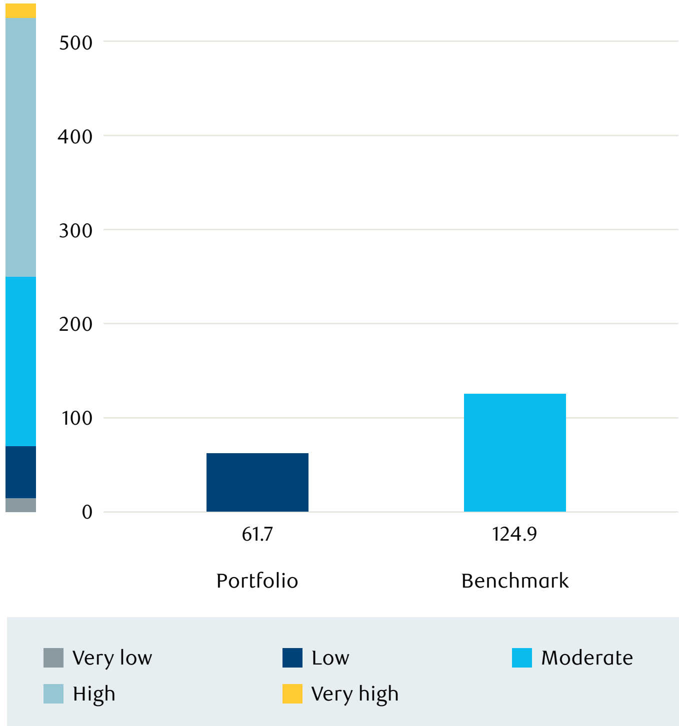

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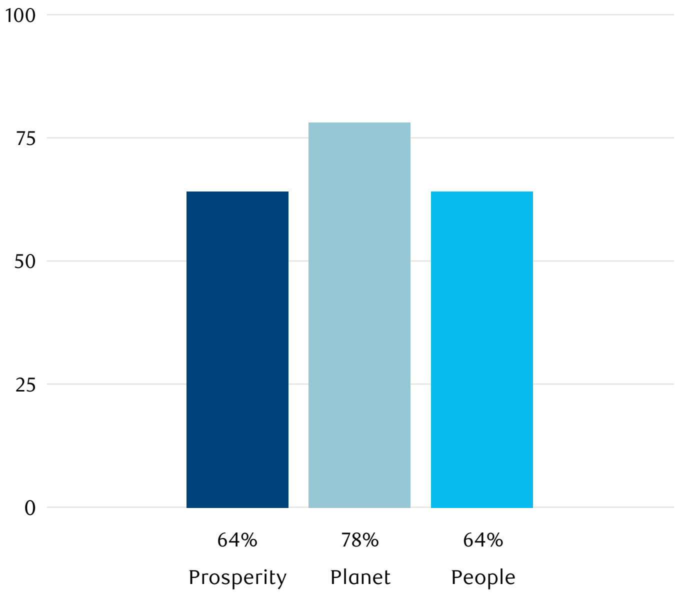

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Prosperity

Planet

People

Sustainable MPS Global Equity 31 March 2026

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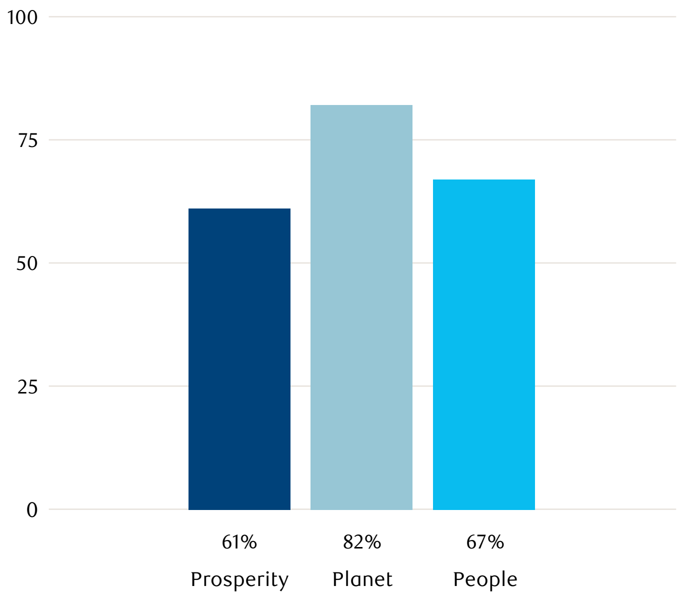
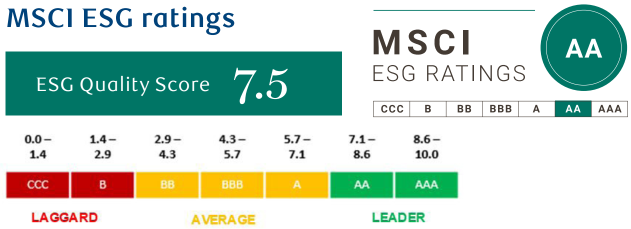
Benchmark for comparison: 100% Global equity.

SDG Alignment



MSCI ESG ratings



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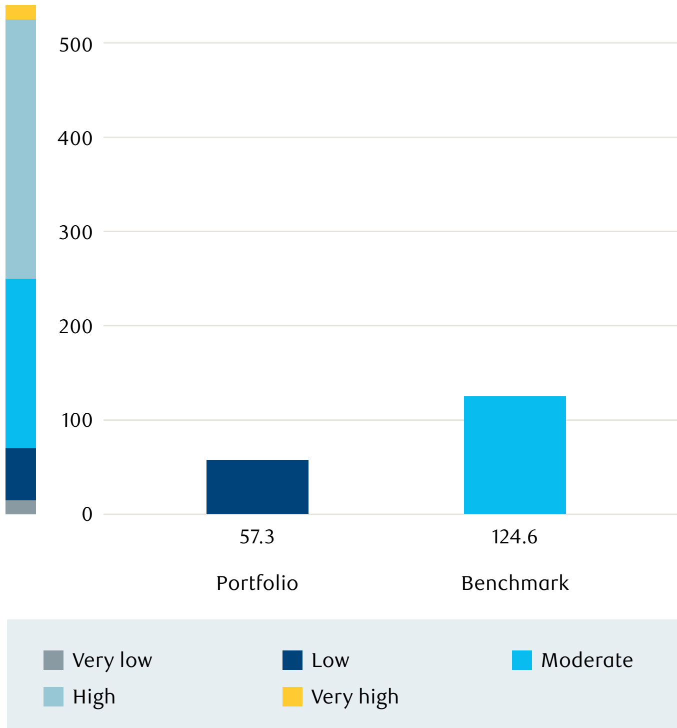

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Prosperity

Planet

People

Investment 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

There's been a tight link between the oil price and bond yields since the energy crisis began. For now, it's probably safe to assume that the higher the oil price goes, the more bond yields will rise, and vice versa. However, there's a limit to this. If energy prices moved higher anew (and remained high), the market's focus would eventually shift from inflation risks to recession risks, thereby acting as a cap on yields. Compared to most of the largest Eurozone member countries, there's been a relatively big move in gilts in the UK since the beginning of the Iran energy shock. Part of the reason for this, in our view, is heightened concern about fiscal sustainability in the UK. The weaker growth outlook that stems from an energy shock raises debt sustainability concerns. Given the actions of the Labour Party over the past year, traders seem to have priced in that it will implement policies in response to the crisis that makes the deficit bigger. But inflation is likely just as much of a concern for markets. The UK has had more of a struggle getting inflation under control than the Eurozone has. There's a case for sticking with gilts over global government bonds. They offer a relatively juicy yield relative to other markets. And once the crisis goes away, there should be room for the UK inflation rate to fall to levels similar to those of other developed countries. We continue to favour global inflation-linked bonds over global conventional government bonds. And with credit spreads still tight, we favour government bonds over corporate bonds. This positioning acts as a partial portfolio hedge against a growth shock, the odds of which have risen given the Iran conflict.

↑ Global Equities

The Federal Reserve is in the midst of a rate cutting cycle, and we expect the global economy to continue to expand. In the relatively few times this combination has existed, global equities performed very well. Add in optimism around the potential for AI to drive strong economywide productivity, and we believe the case to remain overweight global equities is intact. However, we believe only a small 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 Donald Trump's immigration clampdown is weighing on U.S. labour force growth. The upshot is that there's limited room for the jobs growth and aggregate income growth required to drive consumer spending. Further, equity valuation multiples are on the high side, and stagflation risks have picked up given the increase in oil and natural gas prices. Paradoxically, AI also represents a market headwind in some ways. Business models (such as software) are at risk, there's circularity among the AI pick and shovel names, there are concerns about AI app 'moat depth', and there's a risk that AI causes unemployment to rise. Finally, U.S. tariffs should weigh on global growth and result in higher U.S. inflation than would otherwise be the case.

Alternatives

Gold appears to be expensive on many metrics, such as relative to the U.S. consumer price index (CPI). While there will undoubtedly be pullbacks, we believe the fundamental outlook remains solid. Central banks should continue to buy gold, there's room for investors to raise their allocations, and gold would benefit if the dollar depreciates anew, which we expect to happen over the medium to longer term. Gold also acts as a good portfolio hedge against several risks that would prompt either a decline in real bond yields, a rise in inflation, or a mix of both. Falling real yields and rising inflation is good for gold given that it yields nothing and is a scarce asset. Among the more notable risks are a Chinese invasion of Taiwan, a deterioration in U.S. relations with China and/or other countries, higher than expected inflation, the U.S.-Iran conflict, and if the tariff impact ends up being greater than the consensus expects.

UK Equities

UK relative performance is closely linked to global value vs growth style performance. This is due to 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 style 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 is a positive relationship between the performance of UK vs global 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 compared to most markets.

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 equities. 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 due to 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 if some of the hot air comes out of the AI trade, as Europe has relatively low exposure to it. The relative performance of Europe ex UK has stumbled following the attack on Iran as the region is a large net energy importer. This headwind should eventually fade once the crisis subsides and the oil price reverts closer in line with long-term fair value.

Japan Equities

Japan trades on 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 does not have much scope to put idle economic resources to work to drive cyclical growth. Finally, relative to the world ex US equity market, Japanese equities are not cheap on a P/E basis.

Asia & EM ex Japan Equities

China continues to battle multiple structural headwinds. That said, various revelations over the 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 chips, and that market also trades on relatively low valuation metrics.

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