

Passive Plus MPS

Quarterly report – Q4 2025
Annual report – 2025



Brewin
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Introduction

Welcome to this expanded edition of our Passive Plus 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 were up, with UK equities leading at 6.6%, closely followed by Developed Europe ex UK at 6.5%. Asia & 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 rose, driven overwhelmingly by gold's exceptional 13.9% return, as geopolitical tensions and inflation hedging demand supported the yellow metal. Absolute return added 1.4%. Property declined 0.6%, continuing to face valuation headwinds from elevated interest rates.
- Fixed Income was also up, with UK bonds outperforming. UK Sovereign Bonds delivered 3.1% and UK Corporate Bonds contributed 2.7%, benefiting from domestic monetary policy dynamics. Global Corporate Bonds and Global Inflation Linked each returned 0.8%, whilst 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.

Passive Plus MPS performance

Passive Plus MPS performance												
	Q4	2025 YTD	1yr	2yr	3yr	4yr	5yr	2025	2024	2023	2022	2021
Cautious Portfolio	2.7	9.2	9.2	16.0	23.7	10.4	15.4	9.2	6.2	6.6	-10.8	4.5
Cautious Higher Equity Portfolio	3.0	10.1	10.1	18.5	27.4	14.1	22.4	10.1	7.6	7.5	-10.5	7.2
Income Portfolio	3.2	10.9	10.9	20.7	30.6	17.8	28.1	10.9	8.9	8.2	-9.9	8.7
Income Higher Equity Portfolio	3.4	11.5	11.5	23.1	34.6	22.5	36.2	11.5	10.5	9.3	-9.0	11.2
Balanced Portfolio	3.6	12.0	12.0	25.2	37.9	26.6	44.1	12.0	11.8	10.2	-8.3	13.8
Growth Portfolio	4.0	13.2	13.2	29.0	43.7	33.1	55.8	13.2	14.0	11.4	-7.4	17.1
Global Equity Portfolio	4.3	14.4	14.4	33.6	51.1	40.6	69.3	14.4	16.7	13.1	-6.9	20.4

All figures shown above are calculated to 31 December 2025.

Performance Calculation: All income is reinvested. Performance is shown inclusive of underlying fund charges but gross of RBC Brewin Dolphin's investment management charge. Deduction of this charge will have the result of reducing the illustrated performance. Neither simulated nor actual past performance are reliable indicators of future performance.

Passive Plus MPS performance highlights Q4 2025



Asset allocation

What worked and why?

The overweight position to gold was positive in a quarter that saw the yellow metal rise over 13%.



What didn't work and why?

Given their modest performance compared to the rest of the benchmark, the overweight to global inflation-linked bonds has been a mild detractor.

Fund selection

What worked and why?

The SCOR Catbond fund, which provides insurance against earthquakes and wind events, had another strong quarter as the hurricane season drew to a close. The Schroder Global Cities strategy, which holds commercial property through listed real estate investment trusts, also outperformed.

What didn't work and why?

The FTSE 250 midcap fund rose but was a drag to compared to the broader UK equity market. If the rise in UK stocks broadens out to the wider economy over 2026 then this fund should benefit.

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

Passive Plus 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 Passive Plus portfolios. We reduced the allocation to the Vanguard UK Government Bond and HSBC Global Government Bond funds.

Passive Plus MPS

Annual report – 2025



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Passive Plus 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.

Passive Plus MPS performance highlights 2025



Asset allocation

What worked and why?

The overweight position to gold was positive in a year that saw the yellow metal soar over 55%. 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 minor detractor over a year when other equity markets performed better.

Fund selection

What worked and why?

The SCOR Catbond fund, which provides insurance against earthquakes and wind events, had another strong year.

What didn't work and why?

The FTSE 250 midcap fund rose but was a drag to compared to the broader UK equity market. If the rise in UK stocks broadens out to the wider economy over 2026, this fund should benefit.

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

Passive Plus MPS portfolio changes 2025

Asset allocation change highlights

In Q1, the Asset Allocation Committee closed the tactical underweight on European equities as President Donald Trump's tariff agenda expanded globally, shifting the portfolio from a U.S. overweight to a more balanced stance. After a strong rally, the gold overweight was trimmed and the proceeds moved into cash.

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, the 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 change highlights

In Q1, we realised gains from gold and re-invested the proceeds into the BlackRock Sterling Liquidity fund for a competitive yield.

In Q2, the Fidelity Index US was reduced, and the BlackRock Sterling Liquidity fund was increased across all ranges as a means to reduce risk. There was also an increase in the Vanguard Developed Europe ex UK fund. The allocation to the Vanguard UK Government Bond Index fund was increased and funded through reductions in the HSBC Global Government and HSBC Global Corporate Bond funds.

In Q3, the Marshall Wace TOPS Global Titans fund was added to the MI Select Managers Alternatives fund. The strategy constructs a long-short equity portfolio by aggregating analysts' views from across the financial industry.

In Q4, we increased the allocation to cash through the BlackRock Sterling Liquidity fund across all Passive Plus portfolios. We reduced the allocation to the Vanguard UK Government Bond and HSBC Global Government Bond funds.

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 just increased our overweight in gold. We acknowledge that gold is looking pricey on many metrics, such as relative to the U.S. Consumer Price Index. We also note that sentiment towards gold is bullish, which indicates that a lot of the good news is in the price. 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 continues to depreciate, which remains a reasonable assumption. 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 Europe, higher than expected inflation, and if the tariff impact ends up being greater than the consensus expects.

→ 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

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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