



Brewin
Dolphin

Sustainable Managed Portfolio Service

Quarterly report – Q2 2024



Introduction

Welcome to the RBC Brewin Dolphin Sustainable Managed Portfolio Service (SMPS) investment review. In this report, we cover information and events that influenced performance during the second quarter of 2024.

The second quarter of 2024 was characterised by a relatively benign economic backdrop that allowed the stock market to rise, left investors waiting for interest rate cuts, and was overshadowed by drama in the political sphere.

While it's had some impact on markets, the UK general election was met with market apathy, with no discernible movement in bonds or currency markets despite a historic seat gain for Sir Keir Starmer's Labour Party. Within the FTSE 100, the housebuilders were amongst the leaders. They are perceived to benefit from Labour's plan for a blitz of planning reform, which will enable more housebuilding.

Markets are now focused on the United States and the presidential election in November. As the quarter ended, the viability of President Joe Biden as an electoral candidate was being tested, following a stuttering performance in the early televised debate he held with his challenger, former President Donald Trump. The debate performance helped Trump take the lead in the race to the White House while Biden has been fighting to retain his position as the presumptive Democratic nominee.

Bond markets would likely look fondly on a change in Democratic candidate now that Biden's chances have diminished so much. They perceive Trump as a malign inflationary influence. However, a disconcerting feature of President Trump's agenda is his threat to impose tariffs on all imports to the United States, a move which would undoubtedly trigger reciprocal tariffs from trading partners.

Interest rates have generally not fallen as expected across Western economies. However, a few central banks did manage to make a start at cutting rates during the quarter, the most significant example being the European Central Bank. Most bonds will benefit from falling interest rates because they pay fixed interest, so these delayed cuts were a headwind. However, for bonds issued by companies, the stronger economy reduces the risk of non-payment, and they rise in price to reflect that.

In the UK, anticipation of the Bank of England cutting interest rates saw mortgage rates start to decline, but delays to those cuts have seen them creep back up in recent weeks, discouraging new house purchases and raising costs for those needing to remortgage.

The big picture in Q2

- The quarter was a big one for our Sustainable MPS for two reasons. Firstly, the range crossed its third anniversary, a key milestone for investment portfolios. Secondly, and more importantly, the Financial Conduct Authority announced a consultation on the Sustainable Disclosure Requirements regime, sharing further details on its plans to extend the regulation of portfolios. We have responded to the consultation and expect the final version of the rules to be released in the next quarter.

- RBC announced a significant expansion of its commitments to green lending. Chief among these new commitments is \$15 billion towards renewable energy lending by 2030. It is relatively easy to track, verify, and measure the impact in the world in terms of kilowatt hours. RBC also has committed \$1 billion towards the development and scaling of innovative climate solutions through investment funds, and pledged \$35 billion towards low-carbon energy lending, which includes carbon capture projects.

- Italian gas and electricity distributor Enel announced that it had failed to meet a 2023 goal to cut emissions by more than a third compared with 2022. This triggered an increase in the cost of Enel's sustainability-linked bonds worth about \$11bn. Bondholders will now receive millions of euros in additional interest payments, largely as a result of Enel's failure to decommission coal power plants on schedule.

- Indonesia's Ministry of Environment and Forestry has dealt a blow to one of the world's largest carbon offset initiatives, the Rimba Raya project on Borneo Island, by revoking its license due to violations of local regulations. This highlights some of the political and regulatory challenges that carbon offset projects create.

- UK lawmakers voted overwhelmingly in favour of a new law that will make it illegal for people born after 2009 to ever buy cigarettes. It's the toughest tobacco law ever passed in a major economy, although tobacco company shares remain unperturbed. New Zealand introduced similar legislation in 2022, only to revoke it earlier this year before it had come into force.

Market overview Q2 2024

- UK lawmakers voted overwhelmingly in favour of a new law that will make it illegal for people born after 2009 to ever buy cigarettes. It's the toughest tobacco law ever passed in a major economy, although tobacco company shares remain unperturbed. New Zealand introduced similar legislation in 2022, only to revoke it earlier this year before it had come into force.
- Bonds had a slightly negative performance overall. Although Global Corporate Bonds had a positive return of 0.2%, Global Sovereign Bonds and UK Sovereign Bonds underperformed with returns of -0.5% and -0.9% respectively. Cash was positive in the higher rate environment.
- Q2 2024 was a quarter of economic surprises and political drama. Global equity markets saw modest gains, while bond prices moved lower as the prospect of interest rate cuts receded into the latter part of the year.
- Inflation in the UK fell back to the Bank of England's target rate of 2%, but services sector inflation remains above target, causing a dilemma for the Monetary Policy Committee.
- In the corporate world, artificial intelligence (AI) continues to be a dominant theme, with Apple announcing its approach to weaving the technology into its consumer devices. Nvidia, a chipmaker specialising in the silicon and toolkits for AI, has seen strong profit and share price growth, briefly becoming one of the world's largest companies.
- Technology stocks continued to perform strongly in Q2, but so did stocks in the UK and Asia. Political surprises came in the form of unexpected elections in the UK and France, presaging changes of government, which, in the UK at least, did not weigh on markets.
- Interest rates have not fallen as quickly as expected and this has implications for mortgage rates, company borrowing, and bond values. However, the economy remains strong, with companies hiring and wages increasing.
- As we move into Q3, the focus is on the U.S., with the viability of President Joe Biden as a presidential candidate being tested. Investors are also keeping a close eye on government plans for tax and spending, particularly in the UK.

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

Sustainable MPS highlights Q2 2024



Asset Allocation

What worked and why?

The overweight to US equities, which was increased again in Q2, was again a positive contributor. The U.S. technology sector retains its leadership amid investor optimism around artificial intelligence and the impressive earning results from companies like Nvidia. The underweight position to global corporate bonds has also benefited the overall performance, as they were flat during the quarter, dogged by concerns over high valuations.

What didn't work and why?

The overweight position to sovereign bonds was unhelpful, as sticky inflation meant that interest rate cuts by central banks were pushed out into the future. The returns on these bonds remain attractive and, importantly, are held in portfolios as a diversifier that should act as a protection against economic weakness. If central banks cut interest rates, as is expected later this year, we would expect them to support portfolios.

Fund Selection

What worked and why?

First State Investors Asia Pacific Leaders Sustainability Fund was the strongest contributor over Q2, as Indian stocks performed well over the period. The Royal London Ethical Bond was also a positive contributor.

What didn't work and why?

Schroder Global Energy Transition was the most significant detractor in Q2, as the fund is underweight technology and has a bias towards European stocks, which were muted on fears around the French election. Evenlode Income funds also detracted from the portfolio's performance. In an environment in which oil and mining stocks are performing well, sustainable funds will struggle to keep up.

Sustainable MPS portfolio changes Q2 2024

Asset Allocation

In April, the asset allocation committee increased the overweight to US equities by 0.5% which was offset by a reduction in cash. Despite some worries about the US economy and valuations, the committee felt that this was more than offset by prospects for the big tech names in the US index and the risk-off nature of the dollar.

In June, the committee moved overweight gold. Although the gold price has risen this year, a recent price dip was felt to offer a good entry point. Gold could do well if the economy slows down or if countries that aren't aligned with the West continue investing. This was balanced by reducing the allocation to global index-linked bonds, as any potential increase in inflation could be offset by rising yields. They also decided to increase the allocation to UK equities, given the improving economic situation, the prospect of better relations with the EU, and planning reforms that could help sustain growth. They funded this increase by reducing the cash allocation.

Fund Selection

In April, the Evenlode Global Income and the FSSA Asia Pacific Sustainable Leaders were increased, while the Muzinich Global Tactical Credit and the BNY Mellon Global Dynamic Bond were reduced.

In May, the Liontrust Global Sustainable Future US Growth was increased, while the BlackRock ICS Sterling Liquidity fund was decreased.

SMPS performance

SMPS PERFORMANCE (%)						
	Q2	2024 YTD	1yr	2yr	2022	2023
Income Portfolio	0.3	2.5	7.0	10.9	-9.2	9.9
Income Higher Equity Portfolio	0.5	3.3	7.8	13.7	-11.7	7.5
Balanced Portfolio	0.5	3.8	8.1	15.4	-11.7	8.3
Growth Portfolio	0.6	4.8	9.1	19.0	-11.5	8.5
Global Equity Portfolio	0.7	6.1	10.5	23.6	-11.6	9.4

All figures shown above are calculated to 30 June 2024. Inception date: 26 April 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 Q2 2024

Brown Advisory

This U.S. growth fund differentiates itself within a very competitive peer group by focusing on companies that effectively implement sustainable business strategies to drive its prospects for future earnings growth.

The fund is co-managed by David Powell and Karina Funk. The two bring with them complimentary skill-sets; Karina has a degree in Civil and Environmental Engineering and started her career with an environmental focus. David spent a long time as a fundamental equity analyst at Brown Advisory before being promoted to portfolio manager.

They are supported by a large team of equity analysts and ESG-focused analysts and looking for companies with a combination of durable fundamental strengths, sustainable competitive advantages, and compelling valuations.

They are actively looking for companies using sustainability drivers to add value for shareholders. These drivers can be categorised into three areas:

- Revenue growth: Companies selling a product or service to help customers become more efficient
- Cost improvement: Companies innovating to remain consistently more efficient than their peers
- Enhanced franchise value: Companies improving customer loyalty, attracting and retaining top talent, growing faster and taking market share due to their sustainable commitments and/or positive societal impact.

This differentiated approach can result in the managers looking in different areas of the market to other more traditional growth managers, and having a greater emphasis on steady growth over rapid growth.

Funds in focus Q2 2024 continued

Pictet Global Environmental Opportunities

Pictet's core belief is that the true value of natural capital is not properly reflected in market prices, leading to overconsumption of natural resources and excessive pollution. Over the long term, companies with the strongest environmental credentials, which also provide solutions to help reverse ecological damage and increase resource efficiency, will be most in demand.

Resource-intensive and/or highly polluting business models will have to adapt or disappear. The team believes that the environmental universe is still early stage and poorly understood. In addition to the market's short-termism, this should allow Pictet to achieve persistent superior returns.

The Pictet Environmental Opportunities fund invests in companies whose products and services have a positive environmental impact, but also operate within the Planetary Boundaries, a science-based environmental framework created by the Stockholm Resilience Centre.

This model is used to determine if companies are operating within the safe operating space and the environmental footprint at sub-industry and company levels, taking a cradle-to-grave lifecycle approach. It

considers a number of key environmental phenomena, including climate change, ocean acidification, chemical pollution, freshwater, and land-usage change.

The fund's investible universe spans renewable energy, energy efficiency, dematerialised economy, sustainable agriculture and forestry, water supply technology, waste management and recycling, and pollution control. The fund's largest exposures are currently energy efficiency, waste management and recycling, and pollution control.

The Pictet team says that the outlook for the environmental theme continues to remain strong. It believes that the current dislocations in the energy markets will continue to stimulate corporate investments in energy-saving technologies, while 'Green Capex' will be a multi-year secular theme driving the next wave of infrastructure investments across areas such as electrification, electricity grids, renewables, green buildings, battery storage, electric vehicles amongst others.

Anna Haugaard
Senior Analyst

ESG reporting for SMPS Income

(as at 30 June 2024)

MSCI ESG Ratings

ESG Quality Score **7.1**

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 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.

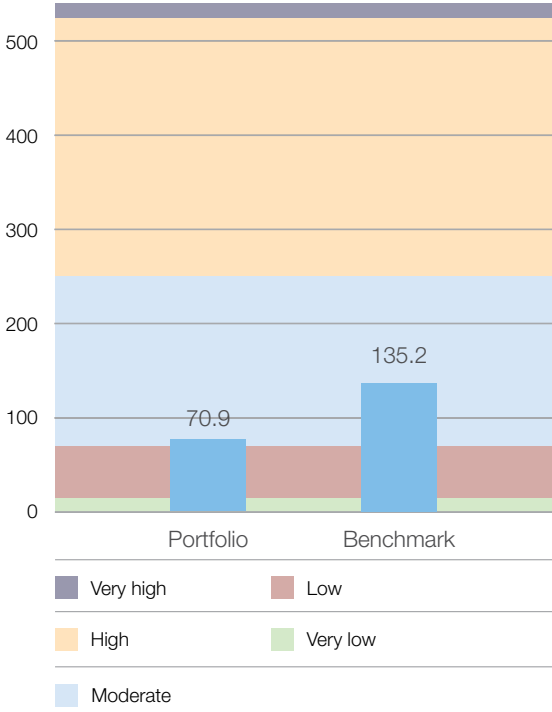
References:

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

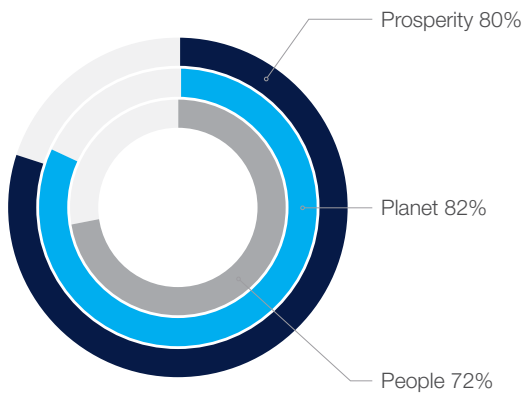
(2) Scope 2: Indirect GHG emissions that occur from the generation of purchased electricity, steam or heat consumed by the company.

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

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



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



ESG reporting for SMPS

Income Higher Equity

(as at 30 June 2024)

MSCI ESG Ratings

ESG Quality Score **7.2**

MSCI
ESG RATINGS



CCC B BB BBB A AA AAA

Carbon Intensity

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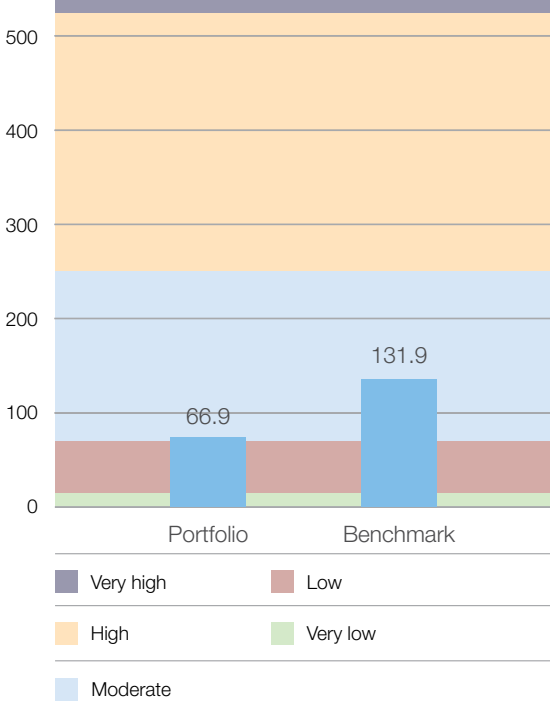
References:

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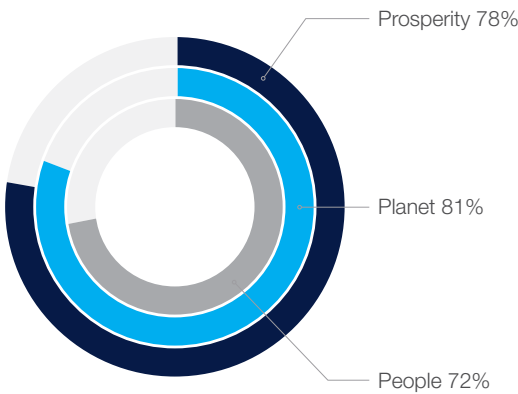
(2) Scope 2: Indirect GHG emissions that occur from the generation of purchased electricity, steam or heat consumed by the company.

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

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 2024)

MSCI ESG Ratings

ESG Quality Score

7.3

MSCI

ESG RATINGS

AA

CCC

B

BB

BBB

A

AA

AAA

Carbon Intensity

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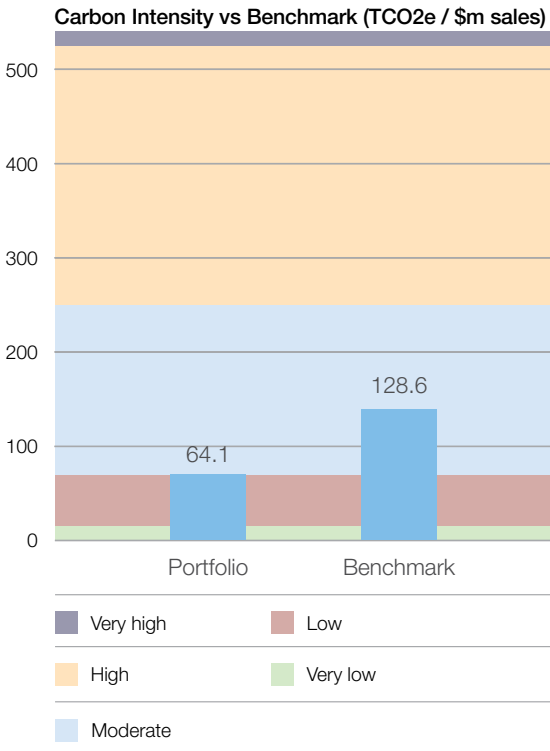
Comparisons of Carbon Intensity figures should be made with caution, as generally companies in the sectors with the highest Carbon Emissions (such as Utilities) also have the highest potential for reducing their Carbon Emissions. We believe it is important to encourage these reductions in carbon emissions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

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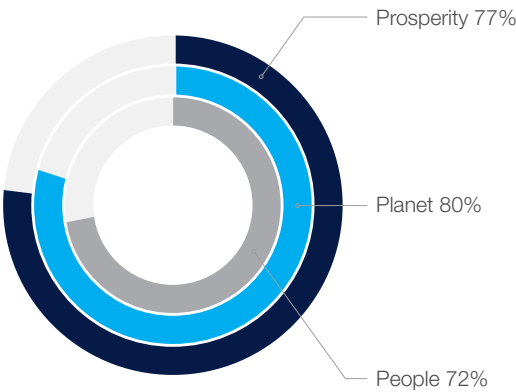
(1) Scope 1: All direct GHG emissions from sources owned or controlled by the company (e.g. emissions from combustion in owned boilers, furnaces).

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

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



SDG Alignment



Prosperity



Planet



People



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ESG reporting for SMPS Growth

(as at 30 June 2024)

MSCI ESG Ratings

ESG Quality Score **7.5**

MSCI
ESG RATINGS



CCC B BB BBB A AA AAA

Carbon Intensity

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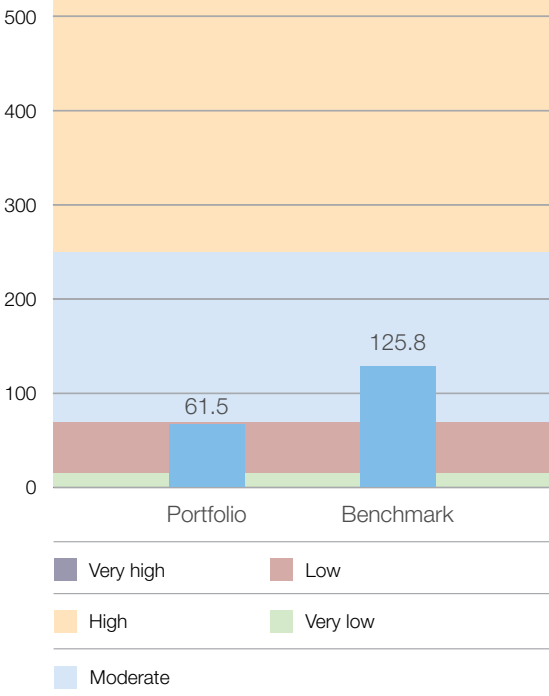
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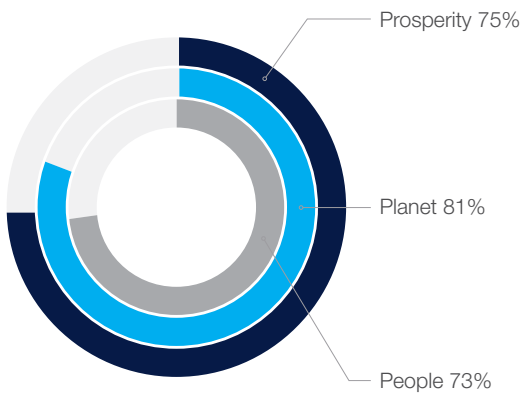
(2) Scope 2: Indirect GHG emissions that occur from the generation of purchased electricity, steam or heat consumed by the company.

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

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



SDG Alignment



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ESG reporting for SMPS Global Equity

(as at 30 June 2024)

MSCI ESG Ratings

ESG Quality Score **7.7**

MSCI
ESG RATINGS



CCC B BB BBB A AA AAA

Carbon Intensity

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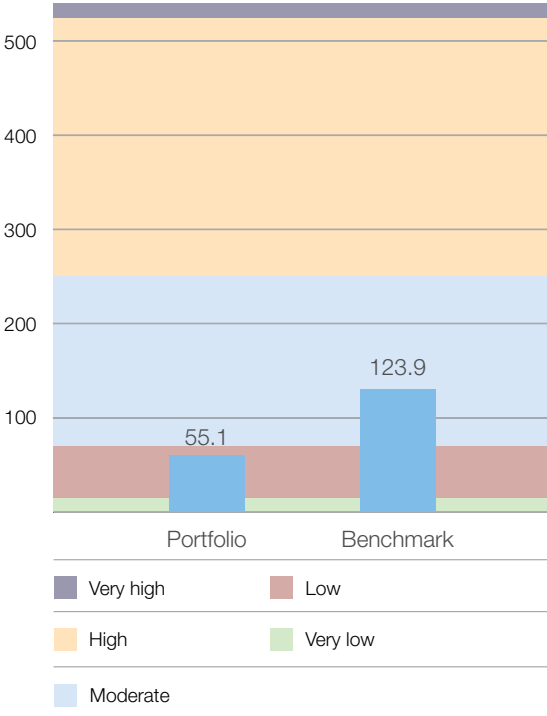
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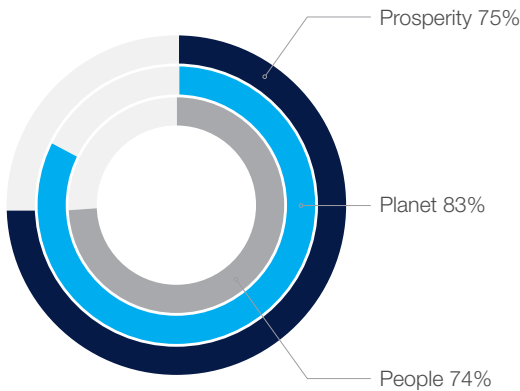
(2) Scope 2: Indirect GHG emissions that occur from the generation of purchased electricity, steam or heat consumed by the company.

Benchmark for comparison: 100% Global equity

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



SDG Alignment



Prosperity



Planet



People



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Asset Allocation Committee investment outlook

These views are implemented across our portfolios but there may be deviations where asset classes or suitable investments are unavailable or excluded.



Cash

Although cash continues to offer a decent yield, we retain a small underweight. We see continued scope for equity market gains, and scope for government bonds to rally moderately as central banks adopt less tight policy stances.



Bonds

Over time, tighter policy, a better functioning supply side of the economy, and already stretched housing affordability should combine to bring inflation lower. This should allow a growing number of central banks to begin to cut rates and justifies sticking with a modest overweight in government bonds. However, it appears that the global economy will settle into a soft landing. In that scenario, government bond yields probably don't have much downside. Against that backdrop, we maintain a modest government bond overweight. We remain underweight corporate bonds. Credit spreads are not sufficiently large to compensate for global economic growth risks, in our view. This leaves us with a neutral position in bonds as an asset class.



Global Equities

The resilience the U.S. economy has exhibited is supportive of the global equity market. Indeed, the probability of a soft landing appears to have risen. Meanwhile, there is the potential for AI-related themes to push equity prices higher. Finally, market momentum is strong. Tempering our optimism is the stage of the economic cycle (late), U.S. valuation metrics (high), sentiment (bullish), and the risk of trade uncertainty following the U.S. elections in November.



Alternatives

Gold has rallied at a time when real yields have risen substantially, which is atypical. Meanwhile, sentiment and positioning toward gold are bullish, which is unsupportive as it points to good news being priced in. But a Donald Trump win in the U.S. presidential election in November could cause U.S. growth to weaken and inflation to strengthen – a supportive backdrop for gold. Gold could benefit from continued inflows from countries not geopolitically aligned with the West. Chinese households may be increasingly attracted to gold as a store of value. Gold could also do well on the back of just a simple moderation in real rates as the economy slows. Turning to property, a light at the end of the tunnel is emerging. Macro fundamentals appear to be getting less bad, and real estate investment trusts (REITs) would benefit proportionally from lower bond yields. Meanwhile, valuations have improved, and sentiment toward the sector is negative (which is attractive from a contrarian perspective). Finally, while fundamentals are challenging in the office space, the market cap weighting of this sector is small, and the backdrop is notably stronger in other REIT subsectors. Nevertheless, commercial property prices continue to decline. In addition, safe haven bond yields may not drop that much in the event of a soft landing. Only a small decline in yields might not be enough to drive strong relative performance in this interest-sensitive sector. Against this mixed backdrop, we maintain a neutral position.



UK Equities

UK relative performance should continue to be closely linked to value vs growth performance, and there are reasons to believe the outlook for the growth style remains brighter. However, some diversification into the value plays that the UK is so heavily weighted in makes sense at this stage, in our view. While the domestic economic outlook is less important for UK equity relative performance, it still matters. Indeed, there is a reasonably close relationship between the performance of UK vs global gross domestic product and UK vs global equity performance. The key event on investor radar screens was the UK general election, which Labour won with a strong majority. Labour may have some success in boosting economic growth with policies that require a limited fiscal outlay. However, the pathway to success is not guaranteed, and implementation will require careful navigation. In addition, in light of the substantial economic challenges confronting the UK, any growth uplift compared to the Conservative Party is likely to be moderate at best. The UK equity market trades on very undemanding valuation multiples and we hold a small overweight relative to benchmark.



US Equities

The main concern with regards to U.S. equity exposure relates to valuation. Both equity valuation multiples and the valuation of the dollar appear stretched. Nevertheless, we are more optimistic on U.S. equities than other regions, for two main reasons. The first is the secular outlook, which appears relatively bright for tech stocks. The main upside risk for the global equity market over the next few years is if an “AI boom” scenario unfolds. With the Federal Reserve on hold and likely to begin cutting rates this year, a weaker version of the second half of the 1990s is a possibility this cycle. Back then, excitement linked to the growth of the internet drove gains. This cycle, AI could be the driver. The U.S. has much greater exposure than any other region to the “pick and shovel” plays positioned to benefit from an AI investment spending boom. The second reason for favouring the U.S. relates to the cyclical outlook. Even though the odds of a soft landing have gone up, economic growth risks appear higher than in any given year. The U.S. is the most defensive of our six equity regions, which is an attractive characteristic at a time when growth risks are elevated. o



Europe ex UK Equities

If we can predict where the relative performance of global tech and continental European FX are going, we stand a good chance of successfully predicting whether Europe ex UK equities will outperform. We are optimistic on the secular outlook for the global tech sector, which bodes poorly for Europe ex UK as it has low weightings in this sector. Regarding continental European FX, over the longer term, there appears to be room for appreciation, which would support regional equity relative performance in common currency terms. Importantly, the euro is cheaply valued (based on purchasing power parity conversion rates), and regional existential risks have declined. However, over the medium term, sluggish economic growth in Europe vis-à-vis the US should limit the upside in continental European FX.



Japan Equities

Shareholder-friendly reform momentum has picked up in Japan, which could help spark a further expansion in relatively depressed price-to-book multiples. However, demographics amount to a major structural headwind to Japanese equity relative performance. From a cyclical perspective, 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 growth. Despite low price-to-book multiples, Japan does not stand out as cheap, in our view. Indeed, it trades at a premium to the world ex US market on 12-month forward price-to-earnings.



Asia ex Japan Equities

China's economy is likely to continue to grow faster than most major economies for the foreseeable future. But there is little reason to believe the historical lack of a link between economic and corporate profit relative performance will strengthen. The geopolitical outlook is challenging, and a Donald Trump win in the U.S. presidential election in November would weigh on the Chinese economy and markets. Bigger picture, China is saddled with debt, and its demographics are a headwind to growth. Nevertheless, we are not bearish on Asia ex Japan relative performance prospects. There are structural growth bright spots. This includes India and semiconductor-heavy markets like Taiwan. Meanwhile, policy support should help slow the downturn in the hard-hit Chinese residential property sector.



Emerging Markets ex Asia Equities

Emerging Markets ex Asia is very cheap, but there does not appear to be a catalyst on the horizon to unlock that value. Brazil, Saudi Arabia, South Africa, Mexico, and the United Arab Emirates have the highest market cap weightings in the EM ex Asia equity index, making it very commodity exposed. We do not expect much upside to commodity prices in an environment where global growth is lacklustre and China refrains from large scale stimulus.

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