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# FUND MANAGER QUARTERLY REPORT

20 YEARS ANNIVERSARY

## Fund Manager Second Quarter Report – June 2025.

**by Harry Thompson**

Trump's 'Liberation' day seems a long way off, with equity markets recovering from the sharp sell-off to now trade at or above the prior highs. An ETF tracking a global basket of stocks returned +11.42% in the second quarter in US dollar terms, although the return in sterling terms of +5.05% reflects the weakness we have seen in the US dollar year to date. A key theme so far this year has been a movement of capital away from the US, and the debate around whether this is the end of so called 'US exceptionalism'. We witnessed a global re-weighting away from the US, and the dollar weakness has played a significant role in the divergence of returns for UK investors.

However, US large cap growth equities, led by the MAG7 and renewed AI enthusiasm, saw a large recovery to be a strong performer on the quarter, with value stocks lagging behind. In Europe and the UK, there was limited divergence in growth over value but large caps struggled on the quarter, returning low single digits in local currency, whilst smaller caps posted double digit gains. Europe has benefitted from the diversification of investment away from the US, with European stocks outperforming US stocks by the biggest margin on record in the first half of the year in dollar terms. This is despite the strong performance of US large cap growth since the end of April. It is important to note that a strong driver of these European returns have been investment into harmful armaments, an area excluded by our model portfolios.

The portfolios held up relatively well during the downturn, given our risk off stance following the rebalance in February where equity exposure was reduced in favour of fixed income. Whilst relative performance lagged slightly in the recovery, a number of sustainable investments have performed better in the first quarter, so despite dominance by stocks such as the MAG7, which we have more limited exposure to, 2025 has been a good year so far. Infrastructure and property also staged recoveries which has also benefited portfolios.

Healthcare and Energy sectors were the only two in the red for the quarter. Healthcare has come under extreme pressure and has been described by some as being 'on its knees'. US policy risk has been a major headwind but there a number of factors which point to a relatively attractive sector given the long-term secular growth driver.

The acceleration in Middle East tensions which added volatility to the oil price, initially spiking and raising inflation concerns, but dropping back to prior levels as tensions eased. Renewable energy, coming off a sustained period of weakness, was in focus given Trump's tax bill and the impact this had on renewable tax credits. The outcome has been mixed, with certain technologies, such as residential solar taking the brunt of the pain. Electricity demand is set to rise for the first time in decades, led by the growth in datacentres, so renewables growth is still likely to be supported, albeit divergence between technologies. The changes in legislation provide much needed clarity and whilst certain technologies will suffer, others will continue their growth trajectory particularly given the cost competitive nature compared to fossil fuel generation.

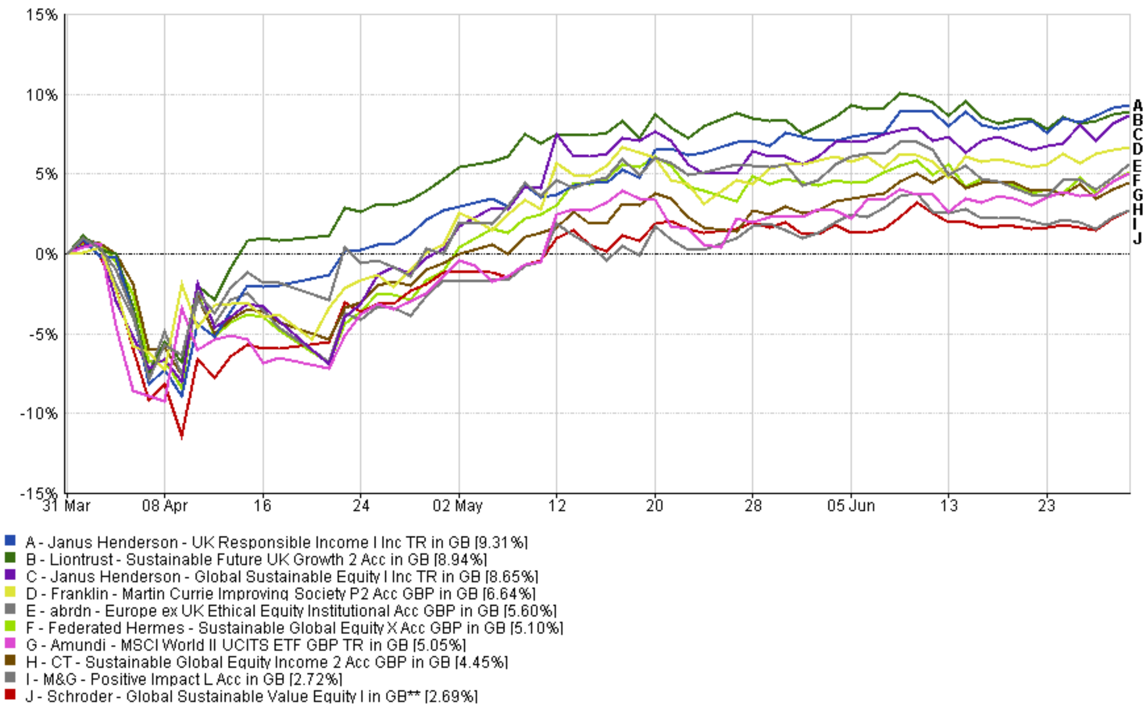
Companies exposed to the broader electrification and energy transition theme have had a strong quarter, supported by renewed optimism around AI. Short covering (buying shares to cover an investor's short position) has played a key role in some of these moves, particularly in the alternative energy universe. However, reassurances around AI capex have supported those companies exposed to datacentre build outs, such as Schnieder Electric, whilst easing trade tensions has supported the semiconductor universe, amongst others.

Front and centre for much of the quarter, geo-political tensions have eased, from the aversion of a full-scale trade war to easing tensions in the middle east. Nonetheless, these issues have had real world impacts on business and investment given the uncertainty that has been created.

Within fixed income, yield curves steepened, with the front end supported by a growing expectation for easing interest rates, whilst government deficits have had investors wary of holding long dated debt. Whilst being under the spotlight, it has become increasingly obvious that governments are struggling to reign in their outgoings, particularly given the increased commitment to defence.

This comes as Trumps "Big Beautiful Bill" will add trillions to the deficit, whilst Kier Starmer and the Chancellor have an uphill battle given the backlash to issues such as welfare reform. It's widely expected that Rachel Reeves will be back asking the UK taxpayer for more money at the next budget. Given these concerns, within our fixed income allocation, we have favoured shorter duration assets.

**Portfolios Developed Market Fund Review**

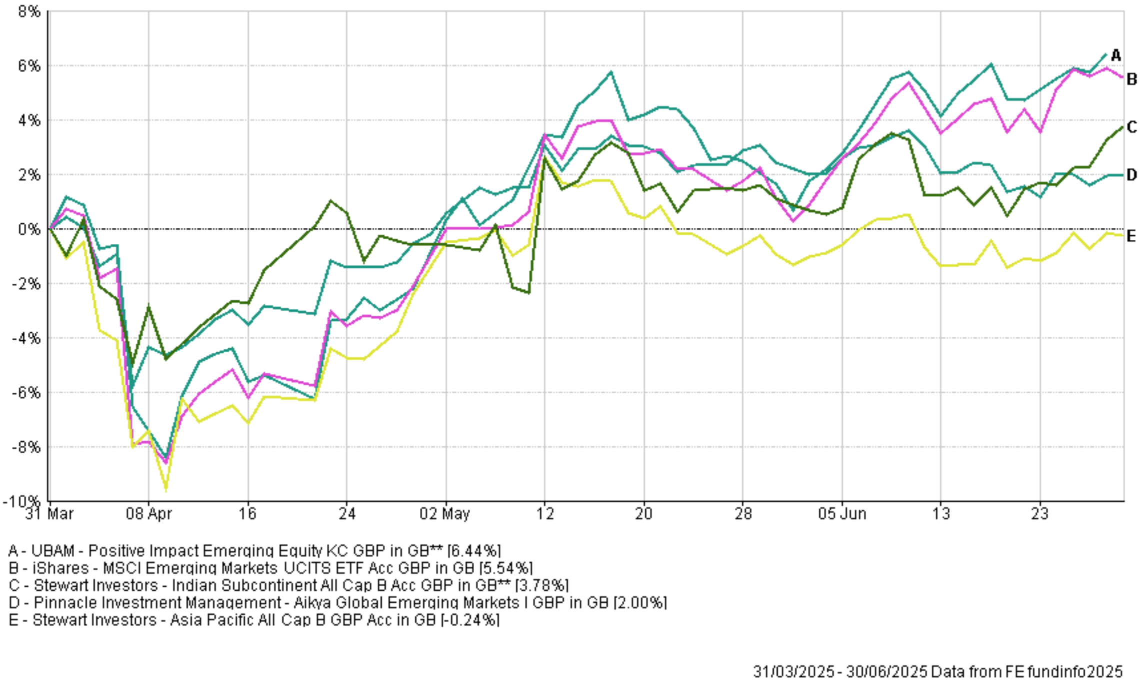



31/03/2025 - 30/06/2025 Data from FE fundinfo2025

With a broadening of investment returns and capital flows outside of the US, portfolios developed world exposure largely outperformed a world equity basket, depicted on the chart through the Amundi MSCI World ETF in pink (not held in portfolios).

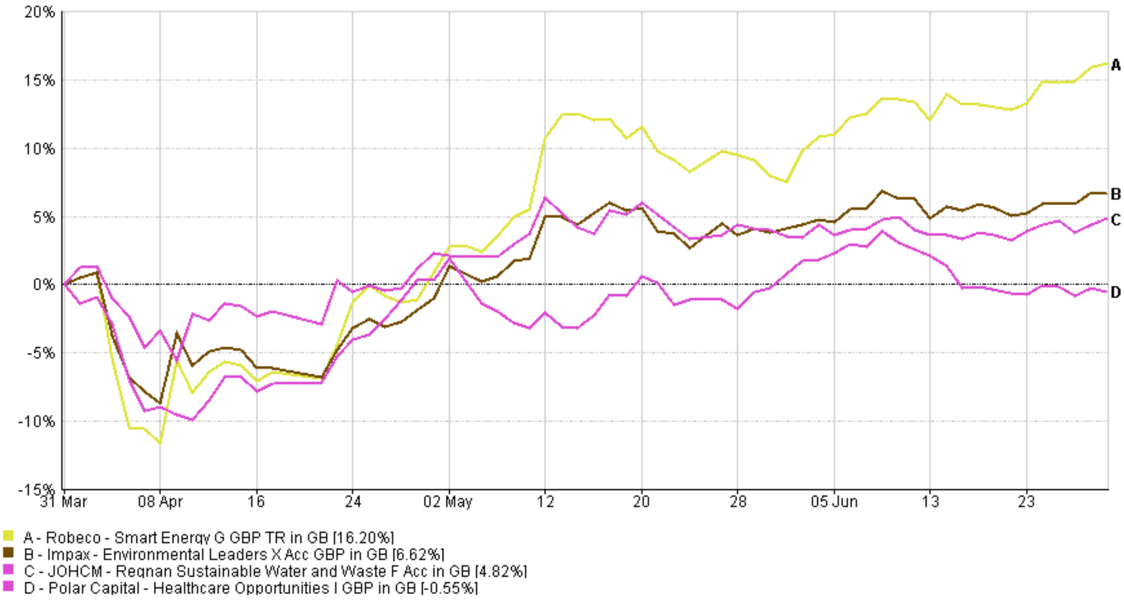
Our higher weight to the UK has been beneficial for returns, although this did begin to lag global equities in the latter stages of the month as US growth equities, led by the MAG7, bounced back. Funds that underperformed are more value focused, as well as the M&G positive impact fund. The latter has a high healthcare exposure (27%) and was sold during the quarter given our refinement of portfolios healthcare exposure. Other fund changes during the quarter include the sale of the Martin Currie Improving Society fund and the purchase of the abrdn Europe Ex UK Ethical fund.

**Portfolios Developing Market Review**




A leading Emerging Market ETF, as seen in the pink line, returned +5.54% for the quarter (not held in portfolios). Portfolios holding in UBAM outperformed, returning +6.44% for the month. During the quarter, we sold our longstanding holding in Stewart Asia Pacific All Cap after we identified that Alibaba was added to the fund. Alibaba has long been on our individual company exclusion list, in the same bracket as some of the US FAANG companies that portfolios do not invest in. Our concerns include the close ties with the Chinese government and controversies such as developing surveillance technology for the state with ethnicity-based recognition capabilities (further rationale was provided in June – please ask to receive a copy). Whilst removing this holding and allocating to UBAM and Aikya, we added the Stewart India Subcontinent in higher risk portfolios, given our preference to maintain exposure to India given the long-term prospects and to capitalise on recent weakness.

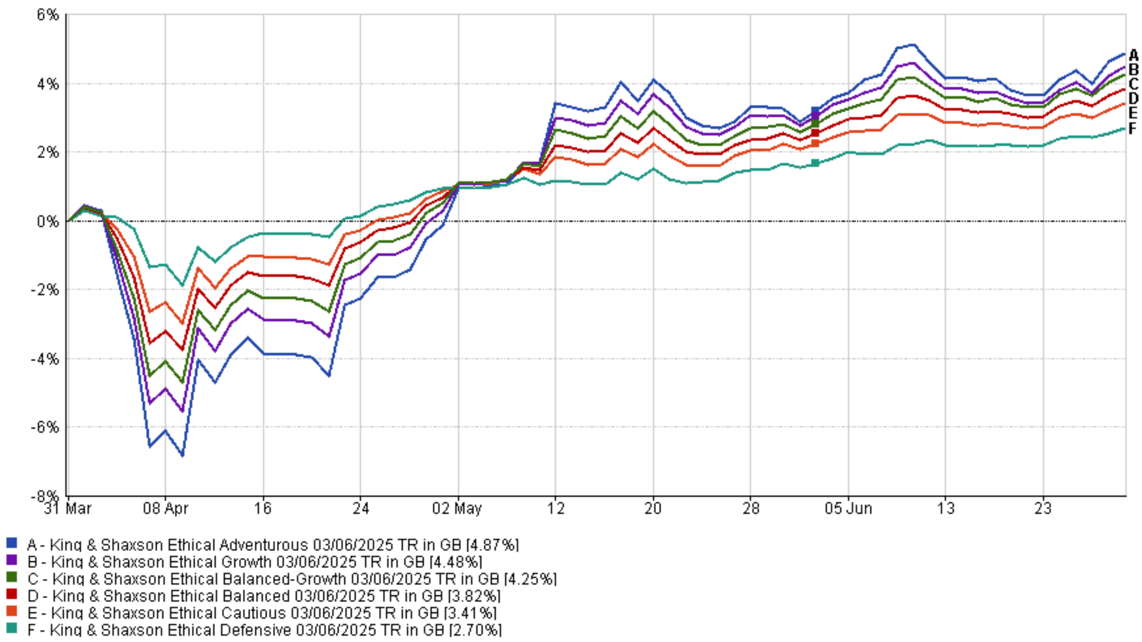
**Portfolios thematic review**




31/03/2025 - 30/06/2025 Data from FE fundinfo2025

We have seen a strong rebound in the climate and environmental focused universe in the second quarter, driven by a combination of factors mentioned in the commentary above. This includes a broadening of equity returns outside of the US, renewed optimism around AI and datacentre build outs, as well as growing clarity on renewable credits in the US. Short covering has also played a role. Healthcare has faced a number of headwinds and this has been reflected in the weakness. We added a small amount to Polar Capital Healthcare Opportunities in the June rebalance, although this would not have made a material change to our healthcare exposure given the sale of M&G Positive Impact fund.

**Ethical MPS Performance**

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**Outlook**

Geopolitics is impacting the market less as it becomes desensitised to political noise from world leaders, whilst accepting the significant shifts in global dynamics. The disruption has caused investors to look beyond the US, shaking the market from its alarming complacency around US exceptionalism.

The recent policy environment has increased uncertainty which is a poisonous word in business, and how companies have weathered the last few months as well as any changes in their outlook will be pivotal for equity valuations. In mid-July the second quarter reporting season begins in the US, starting with the US banks, these will be the first meaningful reports in the post liberation day world and an essential guide for expectations.

We reduced risk (predominantly in February) in our last two rebalances given our concerns over deteriorating outlooks, slowing growth, as well as the increased uncertainty. With deficits remaining a major issue, we still see no benefit or justification in adding unnecessary risk by extending fixed income duration. We have duration risk through a part of our equity sleeve given the bias to more future focused companies. With equity slightly below neutral, we have room to add into any weakness.

In the meantime, capital continues to flow to meet environmental and social issues, and this has become a global phenomenon that we expect will accelerate as rates ease and equity returns continue to broaden. Climate change, energy security, health, food security and knowledge remain important concerns.



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