Greenbank

Bespoke portfolio update for clients of Rathbones Financial Planning

Q1 2025

Asset allocation

Europe

European equities got off to a strong start this year (figure 1), supported by the prospect of higher government spending on defence and infrastructure. As a result, we've become more optimistic about European equities.

The German election result has also contributed to a more positive outlook for the continent. Germany's new coalition is expected to pave the way for loosening self-imposed restrictions on government spending, which could revitalise Europe's largest economy, which has been stagnating for several years.

European earnings could be at risk if Trump follows through on his 25% blanket tariff threat. However, it's worth noting too that valuations in Europe are low relative to the US by historical standards. Admittedly, that isn't the most reliable indicator of near-term performance. But the strong momentum behind European equities could suggest the tide has turned.

Stock market returns since the start of 2025

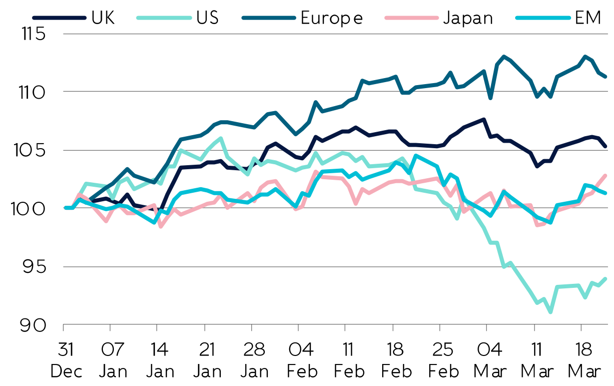


Figure 1

European equities have outperformed other major regions so far this year, most notably the US.

31 December 2024 = 100

Source: LSEG, Rathbones, as at 21 March 2025

Commodities

Gold plays a valuable diversifying role in these times of heightened geopolitical uncertainty and volatility. It is still showing a low correlation with both equities and bonds, which is useful in a world where bonds can't be relied on to provide a cushion in a stock market sell-off, as has been the case in the past. Geopolitical fracturing seems likely to keep central banks and other institutions diversifying their reserves away from the dollar and into gold (figure 2). However, with little visibility on the key fundamental drivers of gold prices, trading gold over the short term is particularly difficult.

Central bank gold demand since 2022 (tonnes)

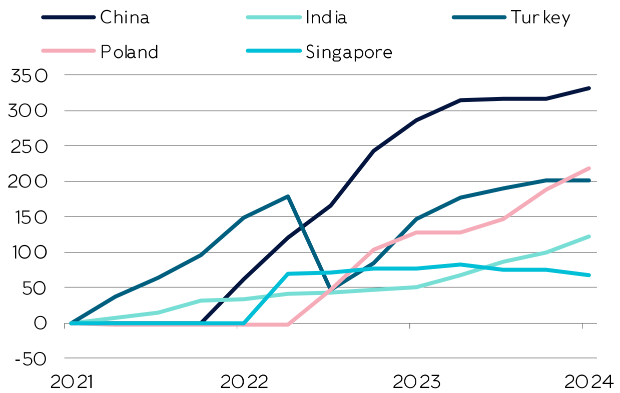


Figure 2

Central bank buying has been a key source of demand for gold in recent years, driving strong performance.

Source: World Gold Council, Rathbones; latest figures as at 24 March 2025

Holdings in focus

Schneider Electric

Schneider Electric is a French multinational corporation that specialises in equipment and software that helps manage energy efficiency in buildings.

The Schneider investment case is founded on the sector-leading revenue and earnings growth underpinned by two primary pillars:

1) Significant expansion in datacentres to facilitate cloud migration and adoption of AI, and
2) Investment in electricity networks to accommodate the energy transition.

Schneider's solutions help customers reduce their energy use, cut emissions, and transition to cleaner, electrified systems. Its technology is found in smart buildings, clean industrial processes, renewable energy networks, and electric vehicle charging infrastructure. The company also has one of the strongest sustainability track records in the industry, consistently recognised for its leadership in environmental performance, circularity, and responsible supply chain management.

As demand for energy efficiency and electrification continues to grow – both driven by regulation and rising environmental awareness – we believe Schneider is exceptionally well placed to benefit, while supporting the global shift to a low-carbon economy.

Diversifiers

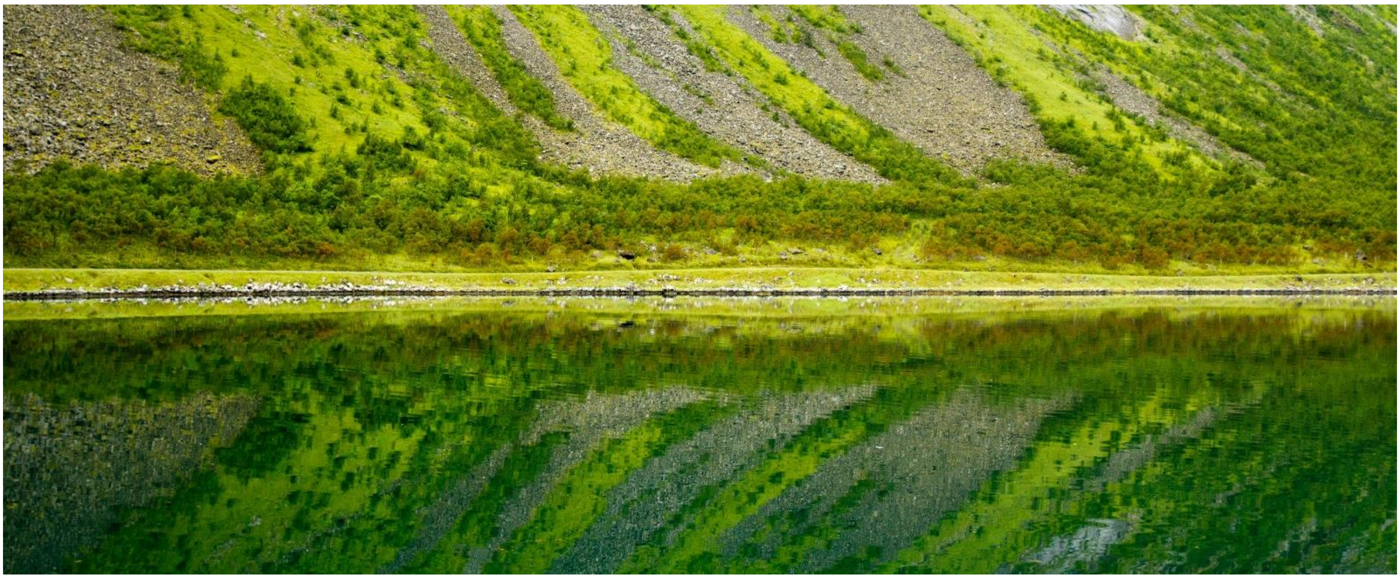
The renewable infrastructure trusts, which Rathbones historically classified as Diversifiers, have been more volatile and correlated to equities than we would expect for a diversifying asset. These funds have demonstrated sensitivity to interest rates and power prices as well as suffering from the 'Trump effect' hitting renewable energy stocks. Rathbones have reclassified these funds as Equity as a result. We have therefore taken this opportunity to increase the Diversifiers allocation, specifically targeting funds that should help protect against market volatility and offer downside protection when needed most, whilst having high sustainability credentials.

The first investment is the **Troy Trojan Ethical fund**, which is a long-only, actively managed multi-asset strategy that invests in developed market government and corporate bonds, equities, gold, and cash or cash equivalents. The fund's emphasis on downside risk management and high-quality securities aims to deliver consistent risk-adjusted returns over the long-term (i.e. 5-7 years). Troy had consulted Greenbank when launching this fund, and therefore the ethical exclusion criteria is broadly aligned with Greenbank's minimum standards. The fund integrates ESG and stewardship in accordance with Troy's Responsible Investment & Stewardship Policy and also adheres to Troy's Climate Change Mitigation Policy. The fund is managed by a credible team with a proven track record dating back to before 2008.

The second investment is the **Royal Mint Responsibly Sourced Physical Gold ETC**, which is an investment fund that tracks the price of responsibly sourced gold. Greenbank conducted extensive due diligence on this fund, in addition to ongoing engagement with the Royal Mint's sustainability, supply chain, and procurement teams, including a site visit from our analysts to the Royal Mint in Wales. More than 50% of the physical gold owned by this fund is recycled gold, and the fund has a target to use 100% recycled gold by 2030 and continued alignment to evolving LBMA's (London Bullion Market) responsible sourcing guidance. In particular, the increasing use of recycled gold is positively aligned with sustainability as it is aligned with circular economy principles, avoids the social and environmental risks of virgin mining, and results in reduced CO_2 emissions.

The specific securities identified and described do not represent all of the securities purchased, sold, or recommended for the portfolio, and no assumptions should be made that the securities identified and discussed were or will be profitable.

Market commentary
Q1 2025



Market overview

Global governments, markets and investors experienced an economically and politically turbulent first quarter as Donald Trump regained the Oval Office. Headline hunters were bombarded with a flurry of executive orders and policy revisions, sweeping federal department cuts and promises to resolve complex geopolitical crises at a stroke.

The president's opening actions were also influenced by a longstanding personal grievance that the US has enjoyed less return value and fewer resources for all it's invested in global trade deals and security. Even before his second term, Trump signalled that "America first" would herald a new and uncompromising era of reciprocal tariffs to reverse decades of perceived unfair treatment and disrespect from global trading partners. The announcement of those tariffs on 2 April – "Liberation Day" – raised questions about their long-term impacts and calculation metrics but left no doubt they represented a significant shock to global trade and economics. Consequently, the Global Economic Policy Uncertainty (GEPU) Index ended the quarter at its highest level since the beginning of the Covid crisis.

However, Trump's powerplay for American enterprise did little to raise domestic growth expectations during Q1. The launch of China's DeepSeek generative AI model significantly undercut existing market leaders and hit the hitherto booming technology sector hard. Investors rotated into sectors not dominated by the tech giants as questions were asked about the long-term sustainability of returns from huge upfront investments in AI infrastructure. The wider effects of evolving US economic policy also impacted investor sentiment. The potential economic and inflationary consequences of trade tariffs are still largely unknown, as are the swingeing cuts made to federal department spending and employment by Elon Musk's Department of Government Efficiency (DOGE), especially as DOGE's remit to reduce the fiscal deficit in the long-term comes with shorter-term job losses and contract cancellations. These cuts are already having a significant impact on the US's ability to address climate change and are weakening environmental protection. There have already been aggressive cuts to the Environment Protection Agency and the National Oceanic and Atmospheric Administration has been disbanded, which plays a key role in climate science and weather prediction and operates a vast infrastructure of satellites, ocean buoys and forecasting stations globally. Tariff-related uncertainty was reflected in volatile US equity markets reacting to shifting expectations regarding the severity of pending announcements and pre-emptive tariff charges placed on infrastructure commodities and automobiles. In this environment, the Federal Reserve took no action on interest rates during the quarter, though Fed Chair Jerome Powell indicated in March that a rate cut would be considered if domestic growth slowed and unemployment rose.

Trump's combative stance had a galvanising effect on European policymakers. With the president and US defence secretary Pete Hegseth decrying the country's "imbalanced relationship" with its Nato allies, the European Commission announced a significant increase in spending to boost the region's defensive capabilities. The €800 billion spending target comprises €150 billion of new initial borrowing and an additional €650 billion raised by allowing member states more fiscal latitude for defence spending within the Commission's rules. A less cautious approach to fiscal deficits was most evident in Germany where the Christian Democratic Union party pushed through parliamentary consent to lift the deficit cap on the country's defence spending and fund a €500 billion domestic infrastructure development programme. Investor response saw Germany's DAX Index enjoy its strongest Q1 since 2023. When reciprocal trade tariffs were initially threatened by the US, a vocal minority in the EU suggested that the region should loosen its regulatory frameworks to encourage increased investment. This position gained more traction among member states as the quarter progressed and the European Central Bank welcomed the change in approach and the prospect of further fiscal stimulus. It also cut the region's base rate twice during the quarter with more cuts expected during the year.

The UK was targeted with Trump's minimal 10% "baseline" tariff and domestic equities proved relatively robust prior to the chaotic events of Liberation Day. The government nevertheless took note of changing attitudes to global trade relationships and announced a cut to its foreign aid budget to finance a 2.5% increase in defence spending. The economy remained sluggish, however, and some economists argued that slow progress coupled with higher interest rates on government borrowing would limit the effects of increased defence spending on overall growth. Chancellor Rachel Reeves was also forced to make further cuts to welfare benefits departments after the Office for Budget Responsibility (OBR) concluded that reforms to the welfare system would save much less than ministers claimed. The chancellor's Spring Statement also saw the OBR halve its 2025 UK growth forecast from 2% to 1%.

Global financial institutions rethink net zero commitments after Trump's election victory

Some major global banks and asset managers caught between real-world, science-based climate risks and escalating political opposition to sustainability withdrew from financial sector climate initiatives during the quarter. Deregulation in the energy sector and the threat of government criticism created a "chilling effect" among financial institutions less certain about the future of their climate strategies.

After the Republican election victory, the Net Zero Banking Alliance (NZBA) saw US financial institutions backtrack on their net zero targets, arguing that they couldn't decarbonise any faster than the wider economy. Top European lenders also threatened to withdraw from the NZBA unless it loosened its rules. In response, the NZBA proposed a vote among its remaining members to replace its existing pledge to track the Paris Agreement's 1.5°C global climate target with a less onerous commitment to keep warming "well below 2°C".

The parallel Net Zero Asset Managers initiative (NZAM) suspended all activities to track its signatories' reporting and implementation commitments after the withdrawal of BlackRock. NZAM advised it would conduct a review to ensure it was still "fit for purpose" after policy shifts in the US and changing client expectations. Research by ShareAction found that the world's biggest asset managers were backing fewer resolutions seeking stricter climate targets, improved human rights policies and increased disclosure of corporate lobbying activities.

AI discussions focus on effective governance, secure access and risk management

Key presentations at February's landmark AI Action Summit in Paris warned against the environmental and resource impacts of generative AI, highlighted the risk potential for AI-driven productivity to create new global inequalities, and emphasised the importance of safeguarding security and sharing developmental breakthroughs. The summit's Statement on Inclusive and Sustainable Artificial Intelligence for People and the Planet outlined priorities such as promoting AI accessibility to reduce digital divides, ensuring AI is ethical and trustworthy, and reinforcing international cooperation for effective AI governance. The French government also announced the launch of a $400 million endowment for Current AI, a mechanism to democratise access to high-quality datasets, invest in open-source AI tools, and measure AI's wider societal impacts.

In March, the European Commission published the third and final draft of its General-Purpose AI (GPAI) Code of Practice. The Code details how GPAI providers and models with systemic risk can comply with their obligations under the EU AI Act, focusing on transparency and copyright-related rules, systemic risk assessment, the adoption of security frameworks, and technical and governance risk mitigation. The revised and streamlined final draft was submitted to a range of stakeholders including businesses, EU member states, civil society organisations and international observers. Once their feedback is assessed, the Commission expects the approved version of the Code to be launched in May 2025.

EU's Omnibus proposal "simplifies" the scope of regional sustainability reporting

Citing the need to increase regional competitiveness, the European Commission's Omnibus proposal presented itself as a "simplification" of due diligence and corporate sustainability reporting obligations under legislative measures like the Corporate Sustainability Reporting Directive (CSRD), the Corporate Sustainability Due Diligence Directive (CSDDD), and the Carbon Border Adjustment Mechanism (CBAM). Omnibus limits the scope of companies required to report under the EU Taxonomy, increases the number of company exemptions to relieve them of reporting burdens, and significantly reduces the number of reporting templates. MEPs voted in March to support the Commission's proposal which gave member states and the first tier of affected businesses an additional year to implement revised due diligence rules. Similar extensions will apply to second and third tier businesses which will also benefit from two extra years to incorporate CSRD requirements.

Ahead of the vote, Greenbank, alongside the wider Rathbones Group, signed onto a statement addressed to the European Union (EU) encouraging it not to reopen negotiations on its full suite of sustainability reporting directives. 165 investors, service providers and other supporting organisations supported the statement, calling on the European Commission to preserve the integrity and ambition of the EU's sustainable finance framework. Arguments made included the fact that businesses and investors require long-term consistent policy signals and access to comparable and high-quality reporting from companies to accurately inform investment decisions. Despite the large amount of investor and civil society support for the statement, the European Commission went ahead and published the package of proposals in February, marking a start of a process that could result in significant changes to EU sustainability reporting. The Commission's proposed changed will need to go through the EU's legislative process, with scrutiny and approval of the European Parliament and Council. Greenbank continue to look for opportunities to engage as the proposals make their way through the legislative process.

Quarterly engagement update
Q1 2025

A summary of some of the engagement activities undertaken during 1 January to 31 March 2025 are outlined below. See our latest engagement review here.

Alignment to Greenbank's sustainable development themes*

Engagement activity — issues

Resilient institutions

Human Rights

Greenbank, alongside the wider Rathbones Group, signed onto a statement in January addressed to the European Union (EU) encouraging it not to reopen negotiations on its full suite of sustainability reporting directives, such as the Corporate Sustainability Reporting Directive, the so-called "Omnibus" package of proposals. 165 investors, service providers and other supporting organisations supported the statement, calling on the European Commission to preserve the integrity and ambition of the EU's sustainable finance framework. Arguments made included the fact that businesses and investors require long-term consistent policy signals and access to comparable and high-quality reporting from companies to accurately inform investment decisions. Despite the large amount of investor and civil society support for the statement, the European Commission went ahead and published the package of proposals in February, marking a start of a process that could result in significant changes to EU sustainability reporting. The Commission's proposed changed will need to go through the EU's legislative process, with scrutiny and approval of the European Parliament and Council. Some of the definitions include reducing the companies in scope of the regulation significantly, focusing only on larger companies and delaying the implementation dates. We continue to look for opportunities to engage as the proposals make their way through the legislative process.

Greenbank attended the Q1 meeting of the Collective Impact Coalition for Ethical Artificial Intelligence collaborative engagement initiative. The engagement draws on outputs from the WBA's Digital Inclusion Benchmark that tracks the performance of the world's most influential digital technology companies in four areas of digital inclusion: enhancing universal access to digital technologies; improving all levels of digital skills; fostering trustworthy use; and innovating openly and ethically. In the Q1 meeting we discussed updates on our previous company engagements and the creation of sector specific subgroups, of which we will focus on the semiconductors subgroup. Greenbank will continue to support engagement for two companies, Microsoft and ASML, with the overall objective of increasing the commitment of these companies to the ethical development and application of AI, as evidenced by related public disclosure. Additionally, our engagement seeks to raise awareness on the importance of the issue of the ethical use of AI.

Health and wellbeing

Health

Greenbank set up the Investor Coalition on Food Policy in 2021 and continues to play a leading role in developing the group's strategy and planned focus areas. In January 2025, the Investor Coalition on Food Policy, including Greenbank, and ShareAction sent a letter to the Rt Hon Steve Reed MP outlining our support for the House of Lords Food, Diet and Obesity Committee recommendations. The Investor Coalition on Food Policy previously gave evidence to the committee alongside ShareAction. Several of the coalition's recommendations featured in the final report, including the need for mandatory reporting on health by food sector companies. At the end of January, the UK Government formally responded to the House of Lords Food, Diet and Obesity Committee report. The Government did not commit to mandatory nutrition targets or reporting; however, the Government referenced the upcoming National Food Strategy as a vehicle for exploring further plans, which the Coalition will provide evidence to. Greenbank's research was also referenced in a House of Lords debate at the end of March, discussing the Government's response to the Committee's report. Greenbank will continue to play a leading role in the Investor Coalition on Food Policy and continue to engage with policymakers to make the case for mandatory health and sustainability reporting.

In addition to our policy centred work, Greenbank has engaged directly with companies to encourage positive health outcomes. Greenbank signed onto nine private letters sent to the CEOs of out-of-home food companies. At the time of signing, Greenbank only has exposure to Greggs, however, we believe the letters represent an opportunity to use our investor voice to influence the out-of-home food sector and demonstrate that investors see rising levels of poor nutrition as a long-term systemic risk to financial performance. The out-of-home sector is increasingly shaping diets across the world, with 40% of adults in the UK eating fast food once a week. The letters called for out-of-home food companies to disclose information on how their products impact on consumer health.

Energy and climate

Climate

Given the recent politicisation of climate change in the United States, including the withdrawal of the US from the Paris Agreement, we proactively engaged with companies, prioritising those where we recognise their strong climate transition plans and disclosure on the issue, to understand how the changes were impacting them. We sought to understand if the companies were making any changes to their climate commitments and strategies or changing their disclosure of climate-related data. We have started to receive responses back from the companies, including Impax Asset Management and Accenture. Both companies shared that they will not be making any changes to their climate strategy or commitments, and both companies confirmed they will maintain their reporting in alignment with previous years.

At the beginning of February, Greenbank attended a meeting with the UK Wealth Managers on Climate group to provide a debrief on our recent engagements with funds on net zero and share ideas. We discussed how wealth managers can collaboratively engage with funds in the future. We also met in March, where the focus was on trying to harmonise the climate-related due diligence questions we each share with fund managers, with the aim of reducing the burden and agreeing on best practices., We agreed to group questions into four categories: net zero commitments, engagement, voting and carbon emissions reporting.

Decent Work

Decent Work

Greenbank has also been monitoring the recent political developments in the United States and globally, on diversity, equity and inclusion (DEI). This has resulted in there being increased scrutiny on private sector DEI programs and has led to several companies removing or rolling back their DEI-related commitments. Greenbank wrote to all the companies that we have aligned to our sustainable development theme 'Decent Work'. We recognised these companies have strong historical performance on DEI and sought to understand the companies' future strategies. We sought to understand any changes the company was making to its commitment to DEI, whether the companies have clear executive management or board level oversight of its DEI strategy and if the companies planned to continue publishing data that showed the diversity of its workforce. So far, we have received responses from five of the companies, including London Stock Exchange Group and AIA Group. Both companies confirmed that they will not change their DEI strategies or commitments, in response to the changing narrative around DEI. Further, London Stock Exchange Group highlighted it has recently rolled out a series of training modules for its staff on DEI.

*Greenbank's sustainable development themes

Habitats and ecosystems

Preserve and enhance natural systems by encouraging companies to have a net positive impact on biodiversity.

Resource efficiency

Promote a circular economy that supports sustainable levels of consumption.

Decent work

Ensure proper emphasis on the quality of jobs being created and maintained alongside their quantity.

Inclusive economies

Promote an equitable economy in which there is expanded opportunity for shared prosperity.

Energy and climate

Support decarbonisation aligned to the goals of the Paris Agreement on climate change.

Health and wellbeing

Ensure companies do not undermine the health of their beneficiaries and encourage improved health outcomes.

Innovation and infrastructure

Support infrastructure that is fit to achieve broader planetary and societal goals.

Resilient institutions

Strengthen well-functioning institutions that protect the rule of law and fundamental rights.

Keeping you updated

To find out more about our events including our quarterly Green Shoots webinars and annual Investor Days, market insights, engagement activities and other news, **visit our website** or follow us on **LinkedIn**.

Green Shoots webinar: Renewables at a crossroads

Find out more and register here

Can the energy transition stay on track? Our next live lunchtime webinar 'Renewables at a crossroads' will explore the opportunities and risks within the renewables sector and the effects that current global politics have on the global clean energy transition.

The Earth Convention Live — Oceans and Rivers, 17 June

Find out more here

Greenbank and Rathbones are delighted to partner with 5x15 for The Earth Convention 2025, a three-part webinar series offering insights into the urgent issues facing our changing world. The second session 'Oceans and Rivers' will explore the relationship between human civilisation and the Earth's oceans and rivers.

March 2025 Sustainability update

Read the full update here

The Cali Fund, established at COP16, has been launched to support biodiversity conservation through contributions from industries using genetic data. An updated biodiversity plan from the UK aims to meet global targets by 2030 despite concerns about progress, and ahead of COP30, Brazil's climate summit CEO called for year-round action, while the UK considers linking its carbon market with the EU to address revenue shortfalls.

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