Climate Assets Balanced Fund Quarterly Update - Q1 2025

April 2025 - for existing investors only

Climate Assets Balanced Fund (B-Share) – Q1 2025 – overview

- Over the first quarter of 2025, the Fund's return was -0.49% ahead of the IA Mixed Investment 40%-85% Sector, which returned -1.22%.
- Heightened level of uncertainty and seemingly increased tolerance for economic pain from the US has caused sharp drops in market sentiment.
- Since launch (1st March 2010), the Fund has returned +169.36%, significantly outperforming the IA Mixed Investment 40%-85% Sector, which returned +134.68% over the same period.

Fund performance (to 31 March 2025)	3 Months %	1 Year %	Since Launch %
Climate Assets Balanced Fund - B Acc	-0.49	-2.96	169.36
IA Mixed Investment 40-85% Share Sector	-1.22	3.33	134.68

Launch Date 01/03/2010. B Accumulation share class performance, inclusive of charges, in GBP with net income reinvested. The performance of other share classes may differ. The share price performance data uses an extended track record based on the Climate Assets Balanced A-Acc (donor share) up until 24 June 2012.
Source: FE fundinfo 31/03/2025. Past performance is not a guide to future performance and future returns are not guaranteed.

Market review

There has been a significant regional rotation in financial markets in recent months, driven by political developments on each side of the Atlantic. During the first quarter, European stocks strongly outperformed US counterparts, with MSCI Europe ex UK posting +7.8 returns compared to a 7.2% decline for the MSCI North America. UK government bonds were somewhat caught in the middle as events on either side pulled yields in opposing directions, with a broad-based gilt index cushioning multi-asset portfolios with a small positive return.

The regional rotation has been caused by continental Europe gearing up for largescale government spending increases while the Trump administration is pushing US policies — such as trade tariffs and unorthodox spending cuts (DOGE) — seen as reducing economic growth. The ongoing war in Ukraine has also played a part, as the US walking back its security guarantee has led to European governments to ramp up defence spending plans.

Germany's election signalled a step change in the country's approach to public spending, with an open-ended commitment to increase defence spending, parliament approved a €500bn package (c. 1% of GDP per year) to improve infrastructure over the next 12 years.

There is a growing belief that Donald Trump is following a markedly different approach from his first term, when it was widely believed that signs of economic or financial market weakness would cause policy U-turns. The heightened level of uncertainty and seemingly increased tolerance for economic pain has caused sharp drops in sentiment data, but 'hard' data points such as the labour market remain strong.

Signs are clearly growing of a US slowdown and if the US does enter a recession — a growing possibility but still not our base case — then we would expect further downside in equities and bonds to perform well. It is worth keeping in mind that the recent correction may simply represent a pairing of strong gains after the strong returns generated in 2024 and 2023.

A closely watched survey of fund managers produced by Bank of America shows the largest ever monthly cuts to US equity allocations, while allocations to Eurozone stocks jumped to the highest level since July 2021. In our experience sharp changes in sentiment often increase the chances of some mean reversion going forward.

The Bank of England (BoE) is forecasting inflation to rise in the coming months to 3.7% and has halved its 2025 growth forecast to 0.75%. Stagflation — the unwanted combination of low growth and high inflation — is becoming an increasing concern but there are some reasons for optimism, such as the recent pick-up in retail sales figures.

The BoE and Federal Reserve (Fed) both kept policy rates unchanged at their March meetings at 4.5%. Inflationary concerns continue to weigh on the mind of policymakers, with strong wage growth in particular a sign that perhaps above target price pressure will persist longer than hoped.

Fund manager comment

During the quarter, the Climate Assets Balanced Fund returned -0.46%, ahead of IA Mixed Investment 40-85% Share Sector, which declined by -1.22%.

The quarter began with the announcement of China's 'DeepSeek', challenging market assumptions about the capital needed to train AI models and causing volatility in technology stocks previously seen as global leaders. As the Climate Assets Balanced Fund had limited exposure to the worst-hit mega-cap technology stocks, the pullback provided an opportunity to reduce the Fund's active underweight in the technology sector. Following the sell-off, **Nvidia** was added after a near 20% fall, and a position in **Apple** was also initiated. However, other tech names (like Amazon and Netflix) remain ESG laggards, making them unsuitable for the strategy.

During the period, alternative investments' contribution was flat and fixed interest exposure was marginally ahead of the benchmark driven by the corporate bond holdings. Security selection was supportive, driven by Global Equity.

The main detractor to performance came from the overweight to US Equities, although stock selection helped outperform the benchmark on relative terms. Despite strength from **American Water Works**, **Waste Management** and **Visa**, technology stocks were strong underperformers, namely the holdings in **Microsoft**, **AMD** and **Nvidia**.

The holding in **Assura** (UK healthcare REIT) was the main positive contributor, after a public offer from private equity group KKR. We took the opportunity to lock in profits and bring the holding back to a model weighting, as there was uncertainty about the board accepting the offer and/or other players entering the bid. Elsewhere, our renewable energy infrastructure holdings continued to hurt performance. Discounts have widened to a weighted sector average of c.30%, while Net Asset Values performed well, likely to reverse if/when central banks reduce bank rates. Whilst we remain positive on the renewable energy space, as the energy transition is underway regardless of politics, we have become less supportive of the electrification of the car, which is taking longer than previously expected. Thus, we divested our holding in **Aptiv**, as the demand for EVs has slowed down and competition from China has reduced margins.

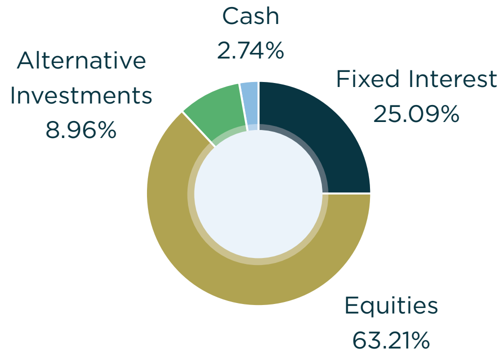
References to specific securities are not recommendations to buy or sell those securities.

Outlook

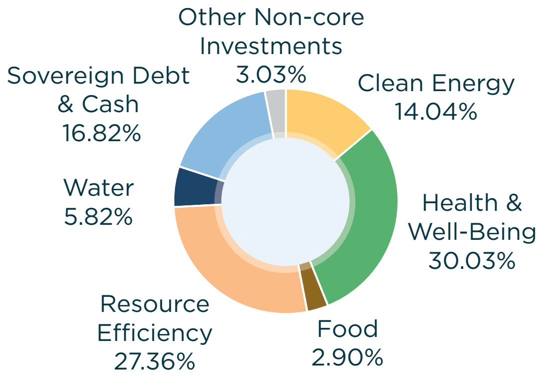
Looking ahead, uncertainty surrounding the impact of tariffs on trade and geopolitics has increased, and we are closely monitoring developments. The adversarial US tariff approach is concerning both domestically and globally, but the situation remains fluid and could change quickly. The risk of a US recession has materially increased, and we will be watching incoming economic data carefully. Bonds are seen as attractive at current levels, offering historically high yields and potential diversification benefits should economic data deteriorate.

Amidst market noise, when it comes to sustainable investment, it is helpful to zoom out and look at the bigger picture. For example, global investment in the energy transition reached over USD $2 trillion in 2024, more than double the investment in 2020. Similarly, the economic, efficiency, and productivity potential of Artificial Intelligence is significant. Notably, both areas of investment are structurally important to the Climate Assets Balanced Fund, aligning with the 'Clean Energy' and 'Resource Efficiency' investment themes.

Asset allocation



Investment themes



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