CHETWOOD
INVESTMENT MANAGEMENT

ESG PORTFOLIOS

QUARTER 1 2025 REPORT

Quarter Insights

- The idea of US exceptionalism came under pressure in Q1, as trade tariff headlines weighed heavily on US equity markets throughout the quarter. This came as US technology stocks stumbled after China's DeepSeek unveiled a breakthrough AI model.
- A clear market rotation took hold: the best-performing countries and sectors of 2024 lagged, while last year's underperformers took the lead.
- The European Commission unveiled a proposal for nearly €800bn in defence spending, while Germany announced a €500bn infrastructure plan, signalling a major policy shift in Europe.
- In the UK, Chancellor Rachel Reeves' Spring Statement included £8.4bn in spending cuts aimed at keeping public finances within the government's fiscal rules.
- Interest rate cuts were announced by both the Bank of England and the European Central Bank during the quarter, while the US Federal Reserve held rates steady but maintained a dovish tone.

Market Review

As we entered 2025, we were mindful that markets might be underestimating the risks associated with early policy signals from the new Trump administration. The campaign's emphasis on trade tariffs raised concerns that such measures could re-ignite inflation and weigh on global growth. Nevertheless, many investors appeared reassured, anticipating that a Republican-led government would reinforce the theme of US exceptionalism.

That confidence was quickly tested. Rising policy uncertainty dented sentiment and reignited fears of a US recession. In contrast, Germany's shift to a more expansionary fiscal regime lifted the outlook for Europe and drove a clear divergence in global equity and bond markets.

Equities began the year strongly, with the S&P 500 reaching a record high in February. However, momentum faded as US growth stocks retreated and many of 2024's top performers declined sharply. Renewed tariff threats unsettled investors, contributing to a more cautious tone. On a positive note, US bonds rallied, buoyed by rising recession risks. Although the Federal Reserve left rates unchanged over the quarter, Chair Jerome Powell struck a dovish tone in March, signaling increased concern about downside risks to growth.

DeepSeek's AI breakthrough in January prompted a reassessment of crowded positions in large-cap US tech, sparking a rotation into other areas. Fears also grew that proposed tariffs and planned public sector job cuts under the Department of Government Efficiency (DOGE) could erode consumer resilience.

In March, the Federal Reserve cut its 2025 US growth forecast to 1.7% from 2.1% and nudged its inflation outlook higher. Meanwhile, European policymakers acted with unexpected vigour. Germany's likely new Chancellor, Friedrich Merz, proposed a €500bn infrastructure plan and looser fiscal rules for defence spending. The European Commission also announced an €800bn defence initiative. These shifts supported European equities but pressured sovereign bonds, despite two 0.25% interest rate cuts from the European Central Bank (ECB), as markets focused on the prospect of larger debt issuance.

Chinese equities surged 12%, supported by stimulus measures, a stabilising property sector, and renewed optimism around its domestic technology industry. UK equities also rose, led by larger companies, though sentiment towards small and mid-caps remained fragile amid lingering economic concerns and fiscal caution in the UK Spring Statement.

> *Our focus on defensive and attractively valued assets helped portfolios navigate a turbulent quarter.*

Limited exposure to richly valued US tech and consumer names also helped shield performance from the sharpest parts of the sell-off.

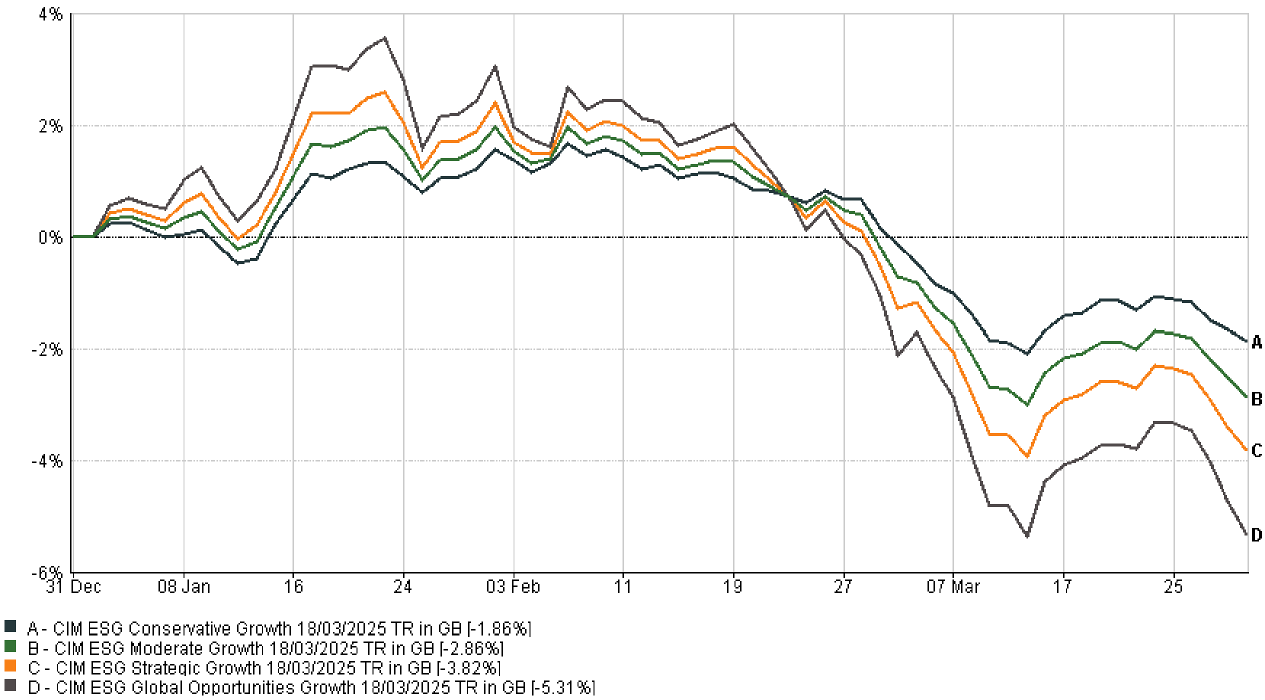
Portfolios performance

Portfolio / Comparator	3 months
CIM ESG Conservative Growth Portfolio	-1.86%
ARC Sterling Cautious PCI	0.78%
CIM ESG Moderate Growth Portfolio	-2.86%
ARC Sterling Balanced Asset PCI	-0.46%
CIM ESG Strategic Growth Portfolio	-3.82%
ARC Sterling Steady Growth PCI	-1.18%
CIM ESG Global Growth Opportunities Portfolio	-5.31%
ARC Sterling Equity Risk PCI	-1.70%

Index Returns[1]	3 months
UK Equities	6.08%
UK Government Bonds (Gilts)	0.56%
All Country World Equities	-4.25%
Pacific Equities (ex Japan)	-2.69%
Emerging Market Equities	0.18%
US Equities	-7.17%
UK Headline Inflation	0.66%

Past performance is not a reliable indicator of future performance; and the value of investments, as well as the income from them can go down as well as up, and investors may get back less than the original amount invested.

Performance graph



31/12/2024 - 31/03/2025 Data from FE fundinfo2025

Key Funds and Trades over the Quarter

Top 3 Model Funds	3 months
iShares Global Aggregate Bond ESG UCITS ETF	1.16% ▲
JPM Global High Yield Bond Multi-Factor ETF	1.00% ▲
Lyxor Core UK Government Bond ETF	0.55% ▲

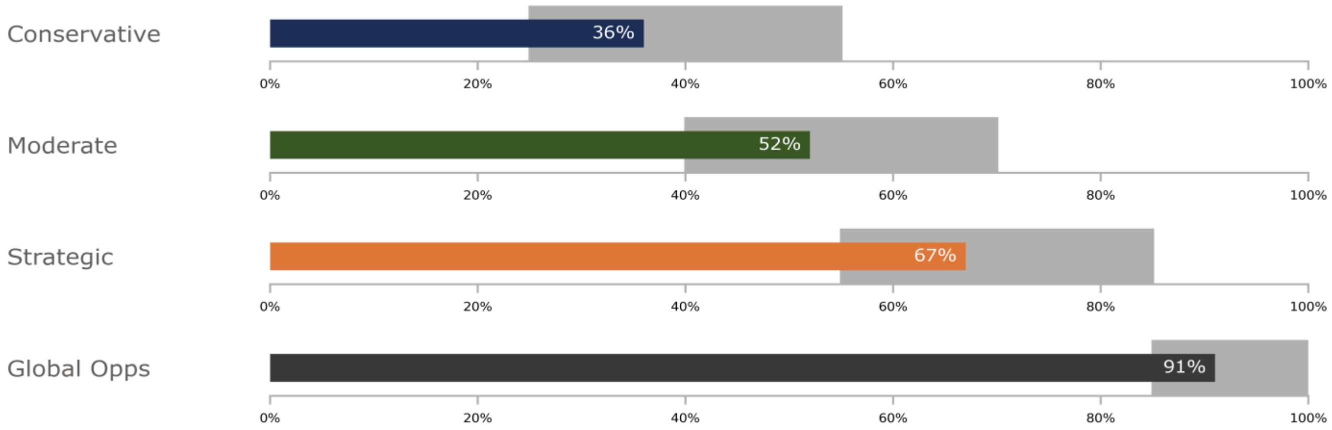
Bottom 3 Model Funds	3 months
Stewart Investors Asia Pacific Sustainability	-8.35% ▼
JPMorgan Climate Change Solutions ETF	-8.62% ▼
FT Clearbridge US Equity Sustainable Leaders	-9.24% ▼

Source FE Analytics to 31st March 2025

Key fund	Commentary
iShares Global Aggregate Bond ESG ETF	This fund offers diversified exposure to global government and corporate bonds, with about 45% in US issues. This allocation benefitted from the broad reduction in US bond yields over the quarter, offsetting declines in our US equity holdings and highlighting the importance of asset class and regional diversification. We hold a currency-hedged version of the ETF, which insulated its performance from the US Dollar's weakness throughout the quarter.
Royal London Sustainable Leaders Trust	The fund primarily invests in UK equities, which held up well during the first quarter of 2025, supporting the fund's performance. Its focus on high-quality companies further contributed to its resilience. The fund is well-suited to an ESG portfolio, as it targets businesses that demonstrate strong environmental and social practices, while actively excluding industries such as tobacco, arms, and fossil fuels.
ClearBridge US Equity Sustainability Leaders	The fund offers active exposure to US equities. The investment manager will try to focus on companies that, in their view, offer products and services that have a positive impact on society by doing less harm to people and the planet relative to other companies within the same industry. The fund's significant allocation to the technology sector weighed on returns in Q1, amid tariff uncertainty and competition from China's DeepSeek breakthrough. The March model rebalance triggered a top-up to return it to target weight.
Lyxor Core UK Government Bond ETF	This fund offers passive exposure to UK government bonds, or gilts for short. During a challenging quarter for equities, this position delivered a gain (0.6%), supported by falling gilt yields. This followed a weaker UK fiscal outlook, prompting Chancellor Rachel Reeves to announce £8.4 billion in spending cuts to meet fiscal rules. We reduced exposure during the quarter, reallocating primarily into equity holdings.

Asset class review

Equity Exposure



Conservative

Ten largest fund holdings (%)

JPM Global Macro Sustainable	15.2%
iShares Global Aggregate Bond ESG ETF	13.6%
Lyxor Core UK Government Bond ETF	11.6%
iShares Green Bond Index Hedged Dis	11.0%
JPM Glb HY Corp Bond Multi-Factor Hdged	10.2%
Royal London Sustainable Leaders Trust	8.1%
ClearBrige US Sustainability Leaders	7.0%
Stewart Investors Asia Pac Sustainable	6.4%
Vanguard Global Sustainable Equity	5.9%
Polar Emerging Market Stars SX Inc	4.5%
Assets in top ten holdings	93.5%

Ten largest asset class exposures (%)

Government Bonds	21.1%
Other Alternatives	15.2%
Corporate Bonds	15.1%
North American Equities	12.6%
High Yield Bonds	10.2%
Asia Pacific ex Japan Equities	8.5%
UK Equities	7.1%
European Equities	4.1%
Emerging Market Equities	2.5%
Cash	2.0%

Moderate

Ten largest fund holdings (%)

JPM Global Macro Sustainable	13.2%
Royal London Sustainable Leaders Trust	11.6%
ClearBrige US Sustainability Leaders	10.0%
Stewart Investors Asia Pac Sustainable	9.3%
iShares Green Bond Index Hedged Dis	9.0%
Vanguard Global Sustainable Equity	8.4%
JPM Glb HY Corp Bond Multi-Factor Hdged	8.3%
iShares Global Aggregate Bond ESG ETF	8.2%
Lyxor Core UK Government Bond ETF	7.0%
Polar Emerging Market Stars SX Inc	6.5%
Assets in top ten holdings	91.5%

Ten largest asset class exposures (%)

North American Equities	18.1%
Other Alternatives	13.2%
Government Bonds	12.7%
Asia Pacific ex Japan Equities	12.2%
Corporate Bonds	11.4%
UK Equities	10.2%
High Yield Bonds	8.3%
European Equities	6.0%
Emerging Market Equities	3.7%
Cash	2.0%

Asset class review

Strategic

Ten largest fund holdings (%)

Royal London Sustainable Leaders Trust	15.0%
ClearBrige US Sustainability Leaders	13.0%
Stewart Investors Asia Pac Sustainable	12.0%
Vanguard Global Sustainable Equity	10.9%
JPM Global Macro Sustainable	10.8%
Polar Emerging Market Stars SX Inc	8.4%
JPM Climate Change Solutions ETF	8.4%
iShares Green Bond Index Hedged Dis	5.6%
JPM Glb HY Corp Bond Multi-Factor Hdged	5.2%
iShares Global Aggregate Bond ESG ETF	4.8%
Assets in top ten holdings	94.1%

Ten largest asset class exposures (%)

North American Equities	23.3%
Asia Pacific ex Japan Equities	15.7%
UK Equities	13.1%
Other Alternatives	10.8%
European Equities	7.7%
Government Bonds	7.4%
Corporate Bonds	7.0%
High Yield Bonds	5.2%
Emerging Market Equities	4.7%
Cash	2.0%

Global Opps

Ten largest fund holdings (%)

Royal London Sustainable Leaders Trust	20.2%
ClearBrige US Sustainability Leaders	17.5%
Stewart Investors Asia Pac Sustainable	16.2%
Vanguard Global Sustainable Equity	14.7%
Polar Emerging Market Stars SX Inc	11.4%
JPM Climate Change Solutions ETF	11.4%
JPM Global Macro Sustainable	6.8%
Assets in top ten holdings	98.2%

Ten largest asset class exposures (%)

North American Equities	31.4%
Asia Pacific ex Japan Equities	21.2%
UK Equities	17.7%
European Equities	10.4%
Other Alternatives	6.8%
Emerging Market Equities	6.4%
Japan Equities	2.2%
Cash	2.0%
Other	1.9%

Asset Class	Portfolio Views
Fixed Interest	We hold a positive view on government bonds, with yields—particularly on UK gilts—offering attractive income. Central banks retain scope to cut rates if needed, potentially adding capital upside. We continue to prefer government over corporate bonds, though widening credit spreads could improve the appeal of corporate debt going forward.
UK Equities	UK equities performed strongly in Q1, driven by solid corporate results. Valuations remain modest, and we remain positive given attractive dividends, share buybacks, and rising M&A activity, which should help unlock value. The UK's services-led economy also offers some resilience against global trade tensions.
US Equity	Following a challenging Q1, we remain underweight, particularly in mega-cap tech stocks, which we view as overvalued and exposed to global trade tensions. Within our US allocation, we favour greater diversification by sector and style to capture opportunities from the continued broadening of earnings beyond the dominant tech names.
Japan Equity	We remain positive on Japanese equities, supported by encouraging inflation and wage growth data, increased defence spending, and Berkshire Hathaway's decision to raise stakes in Japanese trading houses. Ongoing corporate governance reforms—reflected in rising activist investor interest and management buyouts—continue to enhance shareholder value and underpin market sentiment.
Asia and Emerging Market Equity	We maintain a positive long-term outlook, driven by strong growth prospects in China and India. Chinese equities will likely benefit from further stimulus and AI developments. However, we wait to move overweight, given the region's sensitivity to trade tariffs and a stronger US dollar.
Alternatives	We view alternative investments as valuable diversifiers, particularly if inflation picks up as a result of tariffs. We currently favour liquid strategies managed by experienced teams, offering low correlation to traditional assets and potential resilience in volatile markets.

Outlook

The start of 2025 has not been smooth, and as we look ahead, it seems likely that markets will continue to experience volatility for a while longer. Much of this is being driven by ongoing shifts in government policy, particularly in the US. That said, there is good news for investors: diversification is working again.

> *Unlike in 2024, when markets were dominated by a narrow group of large companies, more balanced portfolios are now holding up better in the face of uncertainty. We expect this will help us going forward.*

In Q1, falling US bond yields helped offset equity losses, while in Europe, strong equity performance balanced weaker bond returns. This regional variation shows the value of spreading investments across different markets and sectors.

Despite negative returns from US equities, corporate earnings in the US were strong in the first quarter. Manufacturing activity also picked up, likely as firms ramped up production ahead of new tariffs. While tariff concerns have weighed on sentiment, promised tax cuts and deregulation could provide support to markets in the coming months.

Central banks remain well-positioned to cut interest rates, which would be welcome news for households, businesses, and governments. Bonds have recently acted as a buffer against equity volatility, and we expect that relationship to continue unless inflation picks up sharply.

While uncertainty around US trade policy may persist, the broader backdrop remains supportive. Corporate profits are growing, consumers are still spending, and central banks have begun easing policy. Rate cuts may also encourage some of the $7.2 trillion sitting in US money market funds to re-enter markets.

While inflation is still above target, we believe central banks will prioritise growth and employment, which should help support asset prices. Volatility is likely to remain high, but history has shown that reacting too strongly in these periods can hurt long-term returns. Our focus remains on staying diversified, staying invested, and using volatility as an opportunity to bolster long term returns.

Thoughts for the quarter ahead...

- Policy uncertainty remains high, with US trade actions creating headwinds for global growth. This could raise the risk of recession and requires close monitoring.
- Tariffs may push inflation higher, but this could be offset by falling energy prices and slower growth, potentially keeping inflation in check.
- Labour market data will be key, as US government job cuts begin to take effect. The Federal Reserve will be paying close attention to any signs of weakening employment.
- Markets are watching for a policy pivot in the US—from tariffs to tax cuts and deregulation—which would be more favourable for equity markets and business sentiment.
- Valuations in US tech remain elevated, despite recent declines, suggesting more room for rotation into other regions and sectors. Investors will also be watching for any hint of a "Trump Put" if market weakness affects consumer confidence.
- Central banks retain flexibility, with room to cut rates further if economic conditions deteriorate, offering potential support for markets.
- An active, diversified investment approach is essential, particularly if trade tensions escalate into a more prolonged conflict.

Important information

[1] For the comparative index returns, we have used the total return performances of the following ETF's:

Comparative index	**ETF Name**
UK Equities	ISHARES CORE FTSE 100
US Equities	ISHARES CORE S&P 500
European Equities (ex UK)	ISHARES MSCI EUROPE EX-UK
Emerging Market Equities	ISHARES CORE EM IMI ACC
Japanese Equities	ISHARES CORE MSCI JAPAN
Pacific Equities (ex Japan)	ISHARES CORE MSCI PACIF X-JP
UK Government Bonds (Gilts)	ISHARES CORE UK GILTS
Global Bonds (GBP hedged)	ISHARES CORE GLB AGG GBP-H D
Commodities	ISH DIVERS COMMOD SWAP ETF