RATHBONES

MPS quarterly update

Balanced Plus

1 July 2026 - 30 September 2026

Key risks

- The value of your investment can go down as well as up so you could get back less than you invest.
- The portfolio may invest in assets which are denominated in currencies other than UK pound sterling. These investments may be affected by changes in currency exchange rates, which is known as currency risk.
- There is also a risk that an investment may not be easily sold without a significant loss in value due to an insufficient number of buyers in the market. This is known as liquidity risk.
- The portfolio may invest in emerging market equities. The risk of investing in emerging markets include potential political instability, rapid changes in economic conditions and less stringent regulatory frameworks for companies and governments in emerging markets. This can lead to higher investment uncertainty and significant investment losses.

4 Investment Commentary

7 Performance

9 Portfolio Overview

10 Equity Overview

12 Stock Spotlight

13 Investment Outlook

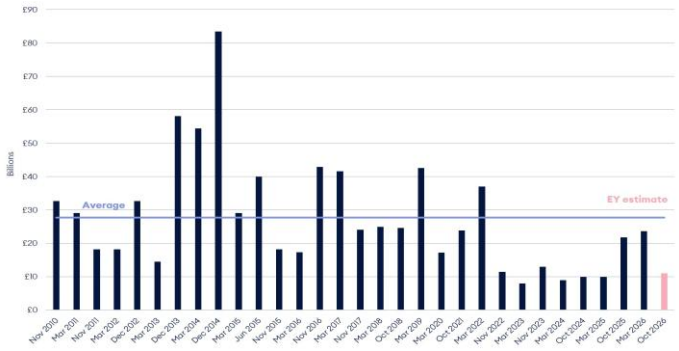
15 Full Holdings Breakdown

Investment commentary

Market overview

Years of simmering fiscal malaise has boiled down the most important day of the year for UK governments to one summarising measure: the 'fiscal headroom'. That's the government's expected surplus after day-to-day spending by 2029/30. One of the government's fiscal rules is that this must be in surplus by then. The other is that public debt as a share of GDP must be falling by that point as well. This reduction to a single number is disappointing but also illuminating about the central problem of the UK: a lack of imagination and courage to make bold reforms. Most of the problems are well known: a tax regime that looks like an Escher print, a welfare and social care system that manages to be both expensive and ineffective, and a lack of homes and infrastructure alongside an inability to build what's required at a reasonable cost. The fiscal rules are essentially a straitjacket that either gives the government an excuse to stagger on with the status quo or prevents it from doing something truly effective. We have a new Chancellor following John Healey's appointment by new Prime Minister Andy Burnham. Yet we expect little else to change. In March, the Office for Budget Responsibility reckoned the Government had £23.6 billion of fiscal headroom. Since then, conflict in the Middle East has severely curtailed the flow of oil, gas and fertiliser through the Strait of Hormuz, helping shift interest rate expectations higher. UK 10-year government bond yields have risen a full percentage point to 5.5%. This means the government must pay more to refinance maturing debt and fund additional borrowing. In early October, EY estimated that the headroom had shrunk to around £11.3bn, or roughly 1% of all tax receipts. If the Strait of Hormuz remains disrupted into next year, EY believes the cushion could swing to a deficit of around £7bn. The Bank of England has eased off its programme of gilt sales, reducing the pace by around 40% and halting sales of 30-year gilts. The move helps by reducing one source of supply in a market that still needs to absorb heavy government borrowing. However, a significant cost remains. The £488bn of reserves created through quantitative easing still attract interest at Bank Rate. For our portfolios, we don't expect the Budget to change the big picture. What matters is how gilt investors react. A credible plan should help long gilt yields settle further. We remain cautious on long-dated gilts and prefer shorter maturities, where yields remain attractive and the risk of large price swings is lower.

UK's fiscal headroom expected to slump after rise in yields, squeezing the Chancellor's options at the budget



Source: OBR; headroom is the government's expected surplus after day-to-day spending by 2029/30; past headrooms standardised against forecast GDP at the time and then calculated as if the economy was the size expected at the end of 2029-30; latest forecast unofficial estimate by accounting firm EY

1998

The last time 30-year UK government bond yields were above 6%, which was hit in early October 2026

This commentary reflects our general views and should not be taken as a recommendation or advice as to how any specific market is likely to perform.

Investment commentary

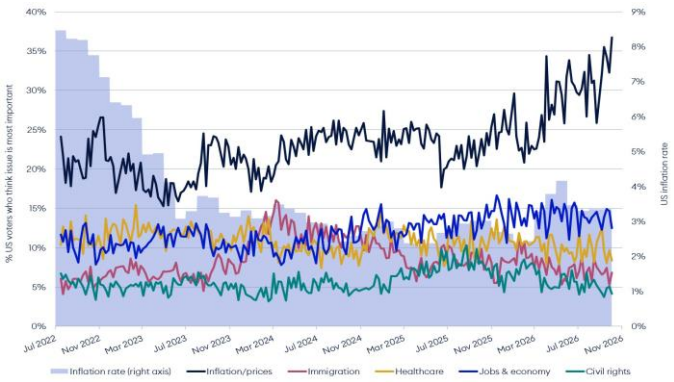
Americans hate AI, but do they love the economy it's driving?

On 3 November, Americans vote on all 435 seats in the House of Representatives and 35 of the 100 Senate seats. Democrats are favourites to win the House, while control of the Senate is close to a coin toss. CBS polling suggests the Democrats' edge comes from unhappiness with prices and from Republican voters who are less likely to turn out. Ask an American how the economy's doing and, these days, they'll tell you what groceries cost. The likeliest result is divided government. That will mean plenty of colourful headlines. For investors, it usually means gridlock, and markets have tended to cope well with gridlock. Much of the administration's agenda already runs through executive action, and a Democratic House can make life awkward without reversing it. We don't expect the election to change the US economic or political direction much.

Company and economic fundamentals matter more, and they look good. In the second quarter, 78% of S&P 500 companies beat their earnings forecasts, and profits rose 53% from a year earlier. Some of that came from one-off investment gains at the big tech firms, but the underlying results were still strong. Revenue growth sped up to almost 13%. Consumers grumble, but they're still spending. Core US retail sales rose 1.2% in August and 5.6% from a year earlier, and employers added about 162,000 jobs. People don't spend like that if a recession is in the offing. What's driving this is one of the oddities of our time: the US economy is leaning heavily on a technology most Americans don't much like. ING estimates AI-related investment accounts for about a third of US growth this year. Yet 39% of Americans tell Gallup pollsters that AI does more harm than good, and only 9% say the opposite. More now think AI will slow economic growth than speed it up. Most think it's moving too fast and want safety and independent oversight put ahead of speed.

Americans are using AI more than ever while trusting it no more than before. The US economy is a great paradox at the moment. Americans usually feel happy and optimistic when GDP is doing well. Yet, with growth holding up and unemployment low, they remain unhappy. Prices are the problem, according to voters. Inflation has been far and away the nation's top concern for four years in a row. And this at a time when inflation, while noticeably higher than target, hasn't been exceptionally high. In fact, complaints about inflation got worse even as inflation improved. Consumer watchdogs in the US report growing use of 'surveillance pricing' since 2021, helped by the rapid progress of AI models. Some companies are using personal data and shopping histories to sell the same products to different people at different prices, even in the same stores on the same day. It only takes someone noticing this once before they become suspicious that they are always being ripped off, even if they aren't. Putting that together, it starts to make sense why Americans might think inflation is higher than official statistics suggest, and why they distrust data showing the economy performing well. They may feel like economic growth is coming at their expense rather than benefiting them. This gap between public sentiment and economic data is worth watching. Public unease can turn into regulation, and the midterms could amplify it. For now though, household spending continues, and our AI exposure sits mainly with the 'picks and shovels' suppliers: chips, networking and power infrastructure. We think they're paid for building the infrastructure, whatever voters end up thinking of it.

Rising prices is consistently the most important issue for US voters - even as inflation has fallen from its peak to relatively benign levels



Source: FactSet, Economist/YouGov Poll of registered US voters asking 'Which of these is the most important to you?'; latest poll consisted 1,381 respondents between 2 and 5 October 2026; inflation is CPI annual change; data 1 July 2022 to 30 September 2026

$6.31 per gallon

The record average price for US diesel at the pump (that's $1.67/litre – we know, what are they complaining about!)

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Investment commentary

Bonds are pricing problems that may not last

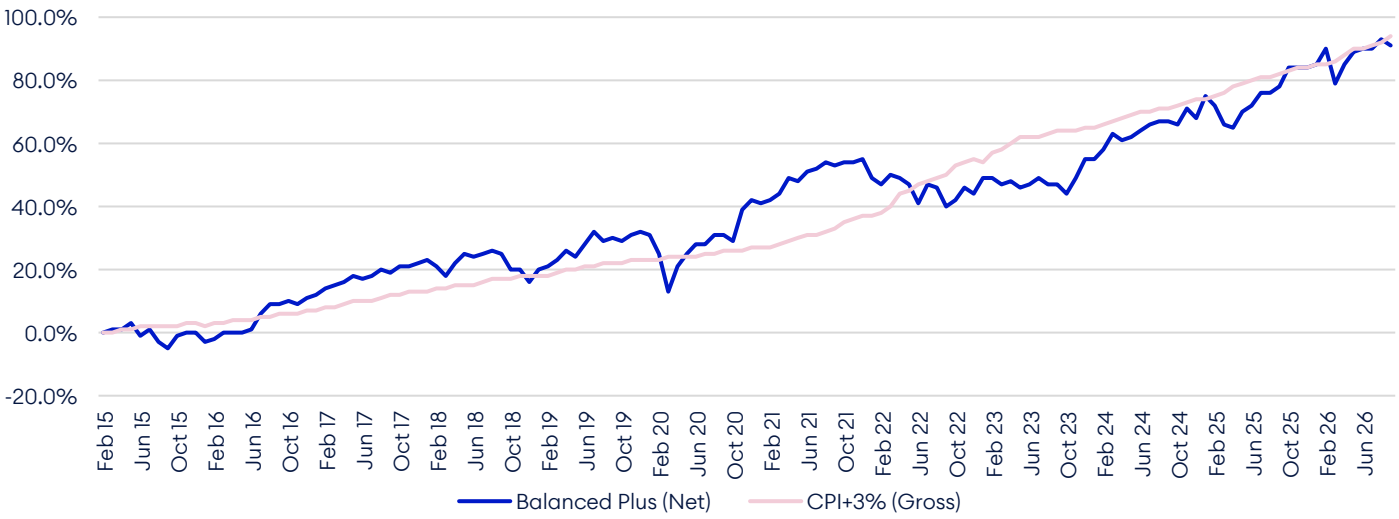
The UK isn't the only country whose bonds have been hit hard. Government borrowing costs blew out in most countries this quarter, most significantly in the US, UK and France. Long-term 30-year bonds were the worst hit. The trigger was renewed fighting in the Persian Gulf. Brent crude hovered near $109 a barrel in mid-September, and US diesel hit a record $6.31 a gallon. In September the US Federal Reserve (Fed) raised rates for the first time since July 2023, to 3.75-4.00%, and officials pencilled in one more hike this year. The ECB has hiked too. The Bank of England has held so far, but its rate-setters are openly talking about hiking if inflation keeps building. A year ago everyone was asking how fast rates would fall. Now they're asking how far they'll rise. We think markets have got ahead of themselves for three reasons. First, politics. The US administration has every reason to bring this conflict to an end and get oil back to a more sensible price. Petrol prices weigh heavily on voters in the run-up to elections, and most Americans blame the conflict for higher fuel costs. When the White House has that much riding on cheaper oil, betting on permanently high oil prices looks like a poor wager. In fact, there are already signs of change. In early October, the President struck a deal to buy Russian diesel. Considering that undermines years of policy aimed at punishing Russia for its war in Ukraine, it shows the lengths the administration is willing to go to in order to ease higher energy costs. Second, higher prices attract more production. Countries that can get oil to market are racing to increase output while profits remain attractive. Others are finding alternative routes to move supply, often through new pipeline infrastructure. Third, the squeeze does some of the work itself. Expensive energy and higher borrowing costs act like a tax on households. Every extra dollar spent on fuel or mortgage payments is a dollar not spent elsewhere. US inflation is already running ahead of wage growth, and higher interest rates have pushed up borrowing costs. In a sense, an oil shock does part of the job for the central bank. Raise rates aggressively on top of that and you risk tightening twice. We expect fewer rate hikes than markets currently price in. If we're right, today's yields are an opportunity to lock in income rather than a signal to stay away. We've been gradually adding duration, focusing on US-dollar supranational organisations and medium-dated gilts, where we think investors are being paid well to take the risk. We're more cautious on France, where the challenge is as much political as inflationary. We could be wrong. A prolonged closure of the Strait of Hormuz would keep inflation higher for longer. That's why we continue to hold assets that should perform well in that scenario, including oil majors and inflation-linked bonds as insurance.

30-year bonds caught the worst of a bad quarter for government debt

Source: FactSet; 1 January 2006 to 1 October 2026

Performance

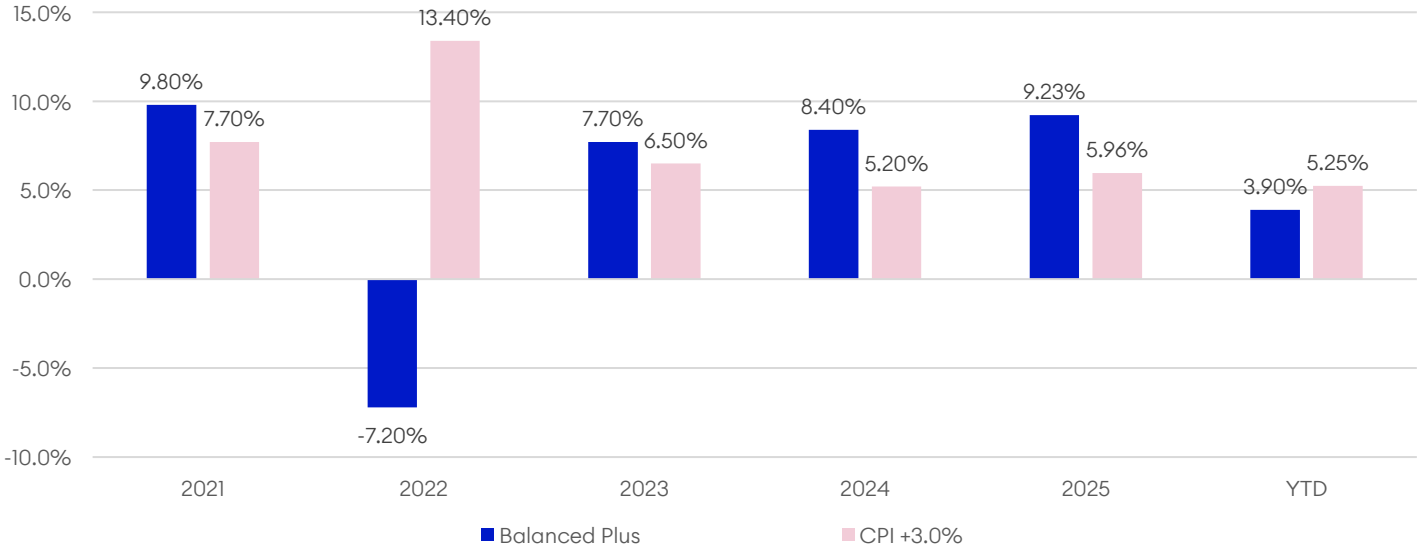
Cumulative return



	1 Month	3 Months	6 Months	1 Year	3 Years	5 Years	10 Years	Since Inception
Balanced Plus (Net)	-0.8%	0.4%	7.0%	7.2%	29.8%	25.1%	74.9%	91.2%
CPI +3% (Gross)	0.7%	1.6%	4.1%	6.2%	18.3%	45.6%	83.0%	93.4%

CPI +2.5% was used until 22/09/2025, with CPI +3.0% applied thereafter, reflecting updated return expectations. Performance is indicative only and may vary depending on the timing of your investment and the chosen platform.

Discrete annual returns



Past performance is not a reliable indicator of future results. Performance is shown net of investment management fees but excludes platform fees. A DFM fee of 0.2% p.a. was applied until 22/09/2025 and 0.0% thereafter. On 22/09/2025, the investment strategy changed from using third-party, single-strategy funds to the Rathbones LED building block framework. This change is represented in the performance chart by the black dotted line.

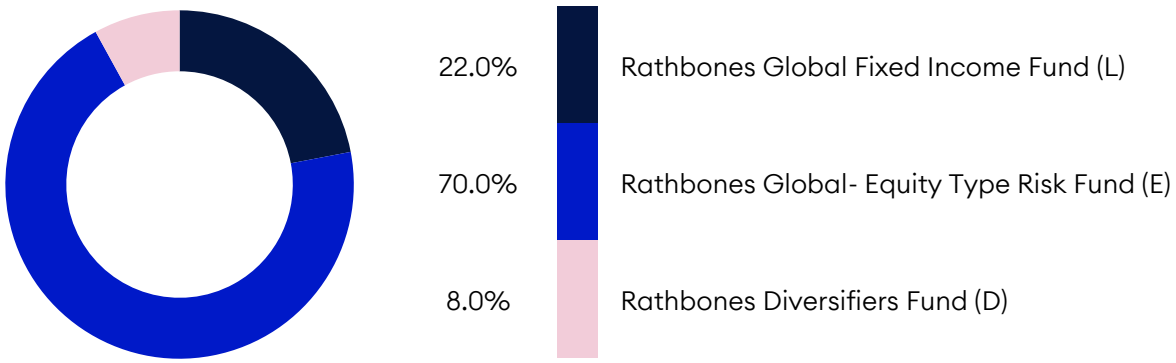
Source: FE as at 30/09/2026.

Portfolio overview

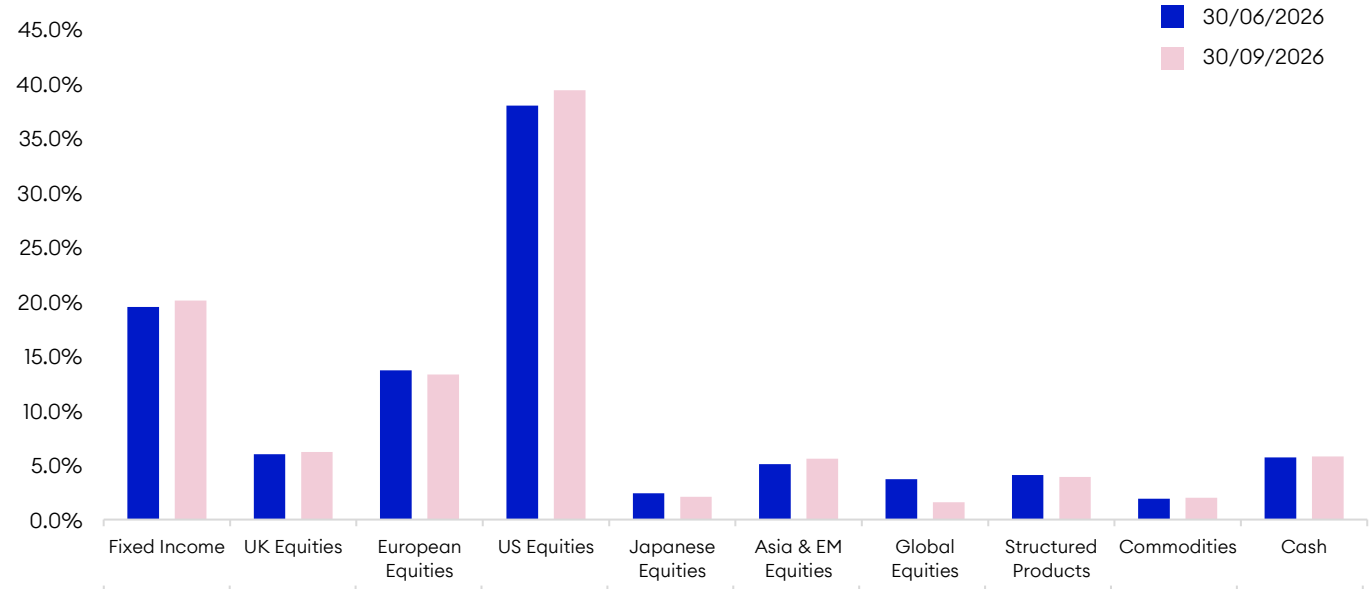
Your portfolio breakdown

The portfolio aims to deliver a return of CPI +3% per annum, net of fees, over a minimum investment horizon of five years. This portfolio is suitable for retail investors with a medium risk tolerance who are willing and able to accept the potential loss of capital in pursuit of long-term capital growth.

This is a discretionary, actively managed balanced portfolio with a medium-risk profile, constructed using our Liquidity, Equity-type risk, and Diversifiers (LED) framework.



Your asset allocation



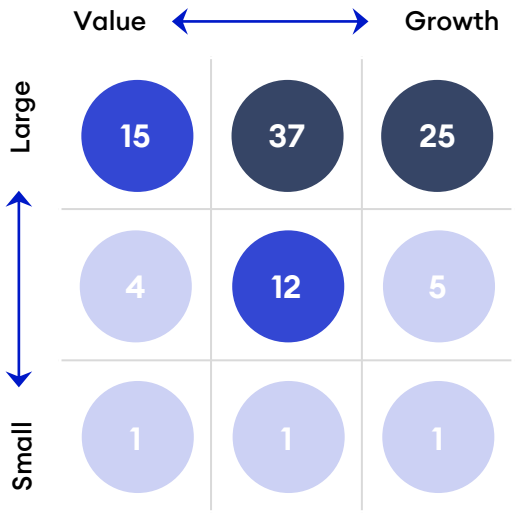
	Fixed Income	UK Equities	European Equities	US Equities	Japanese Equities	Asia & EM Equities	Global Equities	Structured Products	Commodities	Cash
30/06/2026	19.5%	6.0%	13.7%	38.0%	2.4%	5.1%	3.7%	4.1%	1.9%	5.7%
30/09/2026	20.1%	6.2%	13.3%	39.4%	2.1%	5.6%	1.6%	3.9%	2.0%	5.8%

Source: Rathbones.
As at 30/09/2026.

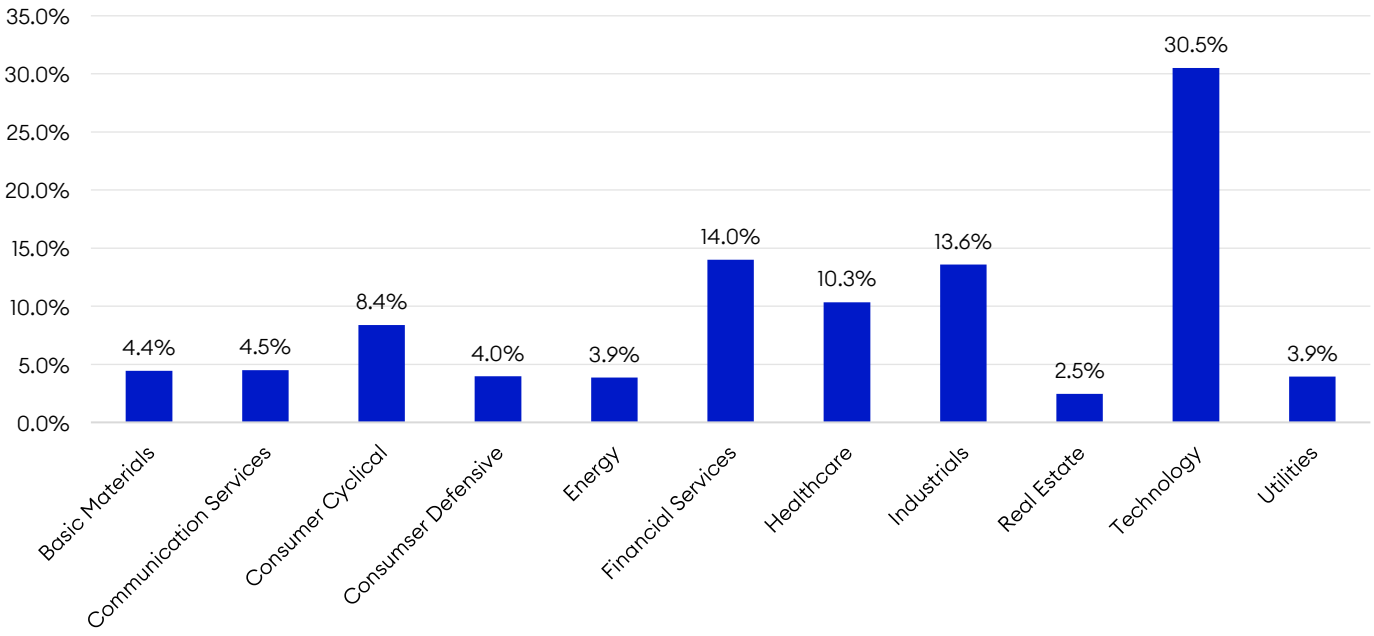
Equity overview

Your equity style

Category	Rathbones Balanced Plus
Large cap	76.9
Large value	14.6
Large blend	36.9
Large growth	25.4
Mid cap	20.2
Mid value	3.8
Mid blend	11.6
Mid growth	4.8
Small cap	2.9
Small value	0.9
Small blend	0.9
Small growth	1.1



Sector allocation



Source: Morningstar Direct.
As at 30/09/2026.

Data may not sum to 100 due to rounding.

Stock spotlight

Amer Sports

- The company has an enviable range of high-quality brands in its stable that covers a range of different sports and hobbies. It is skewed to the outdoors, mountain-climbing and skiing, through brands like Arc'teryx, Salomon, Armada and Peak Performance. But it also has several high-end brands in baseball and sports generalist Wilson. All these brands have two things in common: they are premium in their category and their customers tend to be much wealthier than the average. Amer Sports is a truly international enterprise. Headquartered in Finland, it's listed in the US and is majority-owned by consortium made up of Chinese investors and Lulu Lemon founder Chip Wilson. Its biggest growth is coming from China, where sales rose 40% in 2025. We think these premium brands have strong momentum, selling well to affluent customers in both the developed and developing world. We think its quality is underappreciated by the market.

Alphabet

- The company sits at the centre of the digital economy through a collection of businesses that billions of people use every day. Its core franchise is Google Search, but it also owns market-leading platforms including YouTube, Android, Google Maps and Google Cloud. These businesses have two things in common: they benefit from powerful network effects and generate vast amounts of data that help strengthen their competitive positions. Alphabet is a truly global enterprise. Headquartered in California, its products and services reach users in almost every country, while its revenues are diversified across advertising, cloud computing and subscription services. More recently, the company has emerged as one of the key beneficiaries of artificial intelligence, leveraging its deep expertise in machine learning across both consumer and enterprise applications. We think Alphabet's combination of dominant market positions, strong cash generation and leadership in AI gives it a compelling long-term growth profile. Despite these strengths, we believe the market continues to underestimate the durability of its competitive advantages and the value of its technology assets.

The specific securities described are for informational purposes only and should not be considered investment recommendations.

Investment outlook

A disconnect has developed between an equity market that keeps straining to go higher, and a bond market that is faltering.

A disconnect has developed between an equity market that keeps straining to go higher, and a bond market that is faltering. Bondholders are focused on the soaring cost of energy that's sending inflation higher, and recalculating the path of interest rates for the coming years. If rates and inflation are higher than expected over the life of a bond, then they are going to lose money. Because of this, bond prices dropped markedly this quarter, which sends their yields higher in response. Yet stocks continue to grind higher, despite all these risks. Yet are these two markets really in opposition to each other? Maybe not. The AI buildout is all-consuming for attention, money and economic growth. It's driving prices higher in many areas of computer hardware and construction. It's also delivering phenomenal growth in company sales and profits that have scarcely been seen in the past. All of this has pushed stock markets higher, particularly at the top of the US market, in AI-boosted industries, and in emerging markets where most of the chips are made. While the S&P 500 index has risen inexorably this year, its valuation, the amount people are willing to pay for every dollar of profit, has fallen back markedly. That is effectively the equity equivalent of a rising yield. The only difference is that there is no ceiling on what stocks can make, unlike bonds, whose returns are fixed. This means that stocks can become less valuable even as their prices go higher because they are generating far more profits. Bonds don't have that luxury. The US Federal Reserve (Fed), and other central banks, are in a bit of a bind. They are faced with a resurgence in inflation from an energy shock that they can't control. Raising interest rates won't result in more energy, yet not acting could leave people and businesses assuming inflation will remain much higher, starting a price-wage spiral that could damage the credibility of the central bank. So the Fed decided in September to hike its benchmark rate by a quarter point to 3.75-4.00%. The US economy is still resilient, helped by enormous spending on data centres and tax incentives, so it should be able to stomach a hike that is more signal than solution. For us, the main driver of all this turmoil is the price of oil. While conflict with Iran keeps supply through the Strait of Hormuz tight, higher energy costs risk spreading into wider inflation. A calmer Gulf and cheaper oil would change the picture quickly. Because of this, we're foraging carefully in government bond markets. They once again offer real yields and should act as a safe haven if growth stumbles. However, we've favoured shorter-dated bonds to reduce exposure to concerns around government borrowing and spending. Alongside them we hold diversifiers, including structured products linked to rate volatility and put options on equities. We're also sticking to our fundamentals, owning the companies enabling the AI buildout rather than chasing the most fashionable names.

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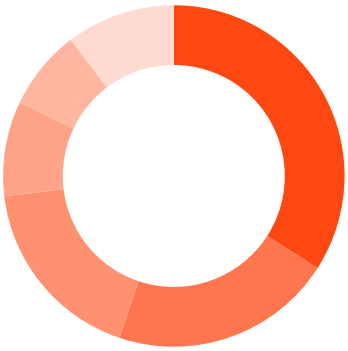
Portfolio holdings as at 30/09/2026

Global Fixed Income Fund (L)

Assets that can be sold easily, low credit risk but may carry interest rate and currency risk.

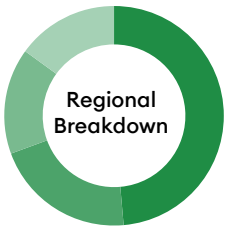


UK Conventional Government Bonds	7.6%
US Conventional Government Bonds	4.7%
Overseas Conventional Government Bonds	4.0%
Supranational Bonds	2.0%
High Quality Credit Investment Grade Bonds	1.7%
Cash & Equivalents	2.3%

Key figures

Duration	5.0yrs
Yield	4.2%
Average credit rating	AA+

AAA	25.4%
AA+/AA-	69.5%
A+/A	5.1%



UK	48.6%
US	20.8%
Australasia	15.6%
Europe	15.0%

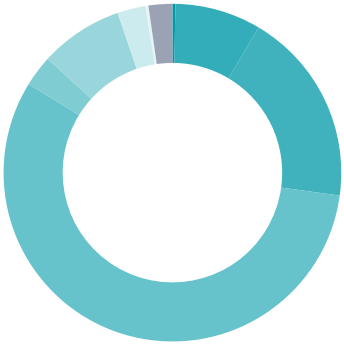
UK Conventional Government Bonds	**7.63%**
UK Treasury 0.875% 31/07/2033	1.72%
UK Treasury 0.625% 31/07/2035	1.62%
UK Treasury 3.25% 31/01/2033	1.60%
UK Treasury 4.125% 29/01/2027	1.16%
UK Treasury 4% 22/10/2031	0.76%
UK Treasury 1.75% 09/2037	0.55%
UK Treasury 1.625% 22/10/2028	0.22%
US Conventional Government Bonds	**4.66%**
US Treasury 4.625% 15/02/2035	0.99%
US Treasury 3.875% 15/08/2033	0.95%
US Treasury 1.875% 15/02/2032	0.95%
US Treasury IL 1.25% 15/04/2031	0.82%
US Treasury 0.125% IL 07/31	0.53%
US Treasury 4.125% 15/02/2036	0.42%
Overseas Conventional Government Bonds	**3.99%**
Norway Govt 3.75% 12/06/2035	0.92%
Australia Treasury 2.75% 21/06/2035	0.88%
Australia Treasury 1.75% 21/11/2032	0.81%
New Zealand Govt 4.25% 15/05/2034	0.69%
New Zealand Govt 4.5% 15/05/2035	0.69%
Supranational Bonds	**2.04%**
European Investment Bank 2.75% 16/01/2034	1.03%
European Investment Bank 2.625% 04/09/2034	1.01%
High Quality Credit IG Bonds	**1.71%**
Santander UK 5.25% 02/2029	0.36%
Lloyds Banking 6% 08/02/2029	0.32%
Royal Bank of Canada 4.875% 01/11/2030	0.25%
NATS (En Route) 1.375% 31/03/2031	0.22%
NatWest Markets Plc 6.375% 08/11/2027	0.21%
Cash & Equivalents	**2.33%**
Cash	2.33%

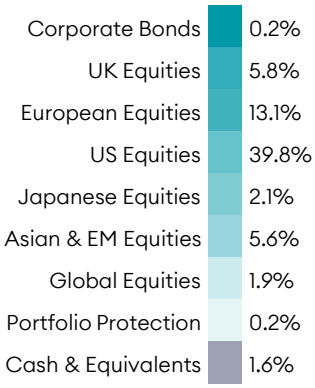
Figures may not sum to 100% due to rounding.

Portfolio holdings continued

Global Equity-Type Risk Fund (E)

Equities and all assets highly correlated with equities during periods of market stress.





Corporate Bonds	**0.20%**
RL Finance Bond 10.125% Perp	0.20%
UK Equities	**5.77%**
Astrazeneca	0.90%
HSBC	0.85%
Compass Group	0.79%
Shell	0.75%
SSE	0.72%
Rentokil	0.54%
RELX	0.52%
Halma	0.35%
National Grid Plc	0.35%
European Equities	**13.07%**
Morgan Stanley SMI Call Spread October 2030	1.39%
ASML	1.12%
ASM International	1.11%
Roche	0.85%
L'Oreal	0.84%
Lonza Group	0.83%
ING Groep	0.74%
Thales group	0.74%
Total Energies	0.73%
Hermes Intl.	0.71%
E.ON	0.70%
Schneider Electric SE	0.69%
Safran	0.63%
Siemens	0.59%
SAP	0.56%
Assa Abloy	0.42%
Sandvik	0.22%
Kion Group AG	0.20%
US Equities	**39.81%**
NVIDIA	2.17%
Alphabet Inc	1.91%
Microsoft	1.86%
SPDR Russell 2000 US ETF	1.63%
Apple Inc	1.57%
Amazon	1.40%
Amphenol	1.02%
Chevron	0.93%
Coca Cola	0.93%
US Bancorp	0.93%
Linde Plc	0.89%
KKR & Co Inc	0.88%
Waste Management	0.84%
Cadence Design System	0.84%
Abbott Laboratories	0.83%
Motorola Solutions	0.82%
Equinix Inc	0.82%
Ulta Beauty Inc	0.80%
Chicago Mercantile Exchange	0.80%
Morgan Stanley	0.80%
Stryker Corp	0.80%
CRH Plc	0.78%
Thermo Fisher Scientific	0.77%
Costco	0.76%
WEC Energy Group	0.75%
Shopify	0.73%
IDEXX Laboratories	0.73%
Sunbelt Rentals	0.72%
Caterpillar	0.72%
Ecolab	0.71%
Boston Scientific	0.69%
American Tower	0.68%
Goldman Sachs Group	0.68%
Home Depot	0.68%
Arista Networks	0.66%
Deere & Company	0.62%
Applied Materials Inc	0.60%
Parker-Hannifin	0.60%
Snowflake Inc	0.60%
Marsh & McLennan	0.59%
Intel Corp	0.58%
Visa	0.50%
Mastercard	0.49%
ARM Holdings Plc	0.46%
Freeport-Mcmoran	0.44%
Facebook	0.29%
Amer Sports	0.26%
Kratos Defense & Security Solutions	0.25%
Japanese Equities	**2.08%**
Bank of America Topix Callable Note	1.33%
Advantest	0.75%
Asia & EM Equities	**5.61%**
Taiwan Semiconductor	1.38%
AIA Group	0.87%
Taiwan Semiconductor Manufacturing Co.	0.76%
Singapore Telecommunications Ltd	0.70%
HDFC Bank ADR	0.70%
Alibaba Group	0.69%
Delta Electronics	0.51%
Global Equities	**1.85%**
iShares MSCI Global Semiconductors ETF	1.55%
Citi 38.1% Memory Autocall July 2031	0.30%
Portfolio Protection	**0.20%**
Goldman Sachs S&P 500 95% Put Option November 2026	0.10%
Goldman Sachs S&P 500 95% Put Option October 2026	0.10%
Cash & Equivalents	**1.57%**
Cash	1.57%

Figures may not sum to 100% due to rounding.

Portfolio holdings continued

Global Diversifiers Fund (D)

Assets with diversification potential demonstrated by low correlation to equities.

Systematic Strategies	**3.89%**
Bank of America European Catapult Strategy May 2028	0.72%
Societe Generale VRR Index (US Rates Volatility) August 2027	0.67%
JP Morgan Orbital Dispersion Note September 2030	0.65%
Citi Commodity Curve Note June 2031	0.63%
Goldman Sachs Enhanced Beta ex-Gold Strategy Sept 2027	0.42%
Royal Bank of Canada 0% 11/2035	0.30%
BNPP European Rates Volatility Notional Weighted October 2027	0.26%
BNPP European Rates Volatility Gamma Weighted October 2027	0.24%

Commodities	**1.97%**
Credit Agricole Callable Bull Note linked to iShare Physical Gold	0.59%
Goldman Sachs Commodity Basis Momentum Strategy Sept 2027	0.37%
Morgan Stanley 17.4% Copper Callable Jan 2031	0.29%
WisdomTree Core Physical Gold ETC	0.24%
iShares Physical Gold ETC	0.24%
Invesco Physical Gold ETC	0.24%
Overseas Conventional Government Bonds	**0.24%**
Australia Treasury 1.25% 05/2032	0.24%
Cash & Equivalents	**1.90%**
Cash	1.11%
UK Treasury 0% 11/2026	0.40%
UK Treasury 0% 12/2026	0.39%

Figures may not sum to 100% due to rounding.

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MPS Range	Defaqto Rating
Conservative	2
Cautious	3
Cautious Plus	4
Balanced	5
Balanced Plus	6
Growth	7
Growth Plus	8

This MPS portfolio solution is designed for clients of professional advisers. A copy of our Target Market Assessment is available upon request.

If you would like further information, please do not hesitate to contact your local Business Development Director or email MPSonPlatforms@rathbones.com and we will be pleased to assist you. If you are a client, please reach out directly to your financial adviser.

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Previously rated as the
Investec Wealth & Investment
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