RATHBONES

RATHBONE MULTI-ASSET PORTFOLIOS

STRATEGIC INCOME FUND

Quarterly investment update
October to end December 2025

CONTENTS

HOT TOPICS

MARKETS HOT TOPICS (MACROECONOMIC)

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

A STRONG YEAR THAT FELT ANYTHING BUT

As 2025 dawned, most economists thought there was a 50/50 chance of recession hitting America. That's not the way it went down. The first year of President Donald Trump's second term was at once chaotic and purposeful. And stocks (ultimately) loved it. Now, whether this is because of Trump, in spite of Trump, or a bit of both is hard to unpick.

When Trump is in the White House, we've learned to expect uncertainty and a whirlwind of shock decisions, left-field suggestions and deals to keep nations, businesses and the press off balance. In the meantime, Trump and his administration hustle towards their goals. We think this is a feature, not a bug, of the Trump administration. For all the all the noise and attention-grabbing headlines, we believe Trump's team is ultimately looking to achieve these aims:

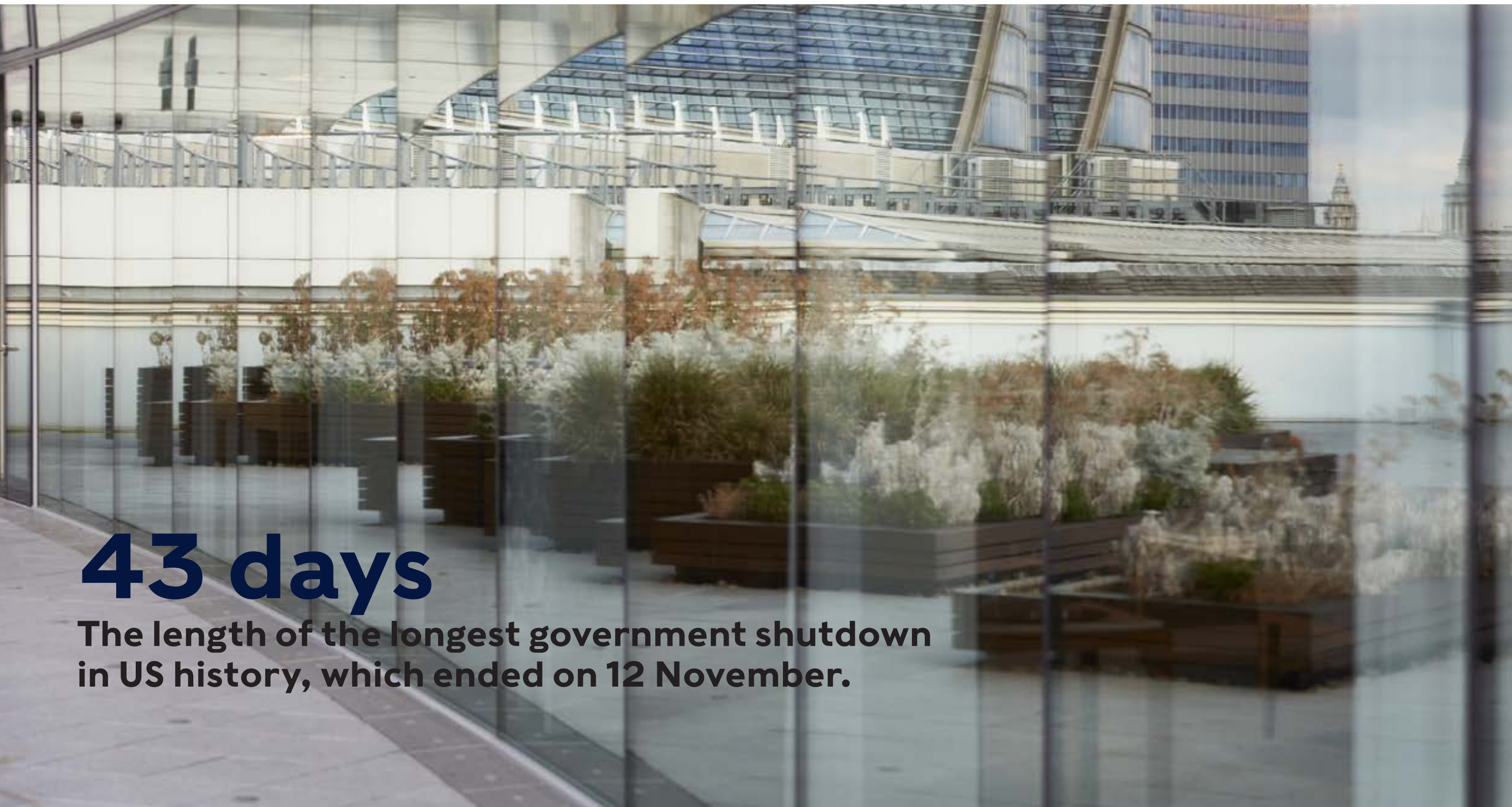
- greater energy independence
- lower bond yields
- deregulation
- tax cuts
- onshoring of key strategic industries
- reducing overseas tax competition that keeps US profits offshore and untaxed
- increased access to overseas markets for US companies
- boosting tariff revenue, thereby lowering government deficits

For now, they seem to be succeeding. They have the cheapest homegrown energy of the G10; a 10-year bond yield that's closer to 4% than 5%; a much-slimmed regulatory environment; tax cuts in the bag; big business investment, especially in AI and chip manufacturing; a powerful mercantile position; and much greater tariff revenue, albeit without significantly lower deficits.

There were several periods of jerking falls in the S&P 500 index, yet over the whole year it shot up roughly 18% in dollars – in sterling it was closer to 10% because of the stark weakness in the dollar. That's the third consecutive year of double-digit returns. US government bonds had a similarly bumpy ride, but their yields have dropped significantly from almost 4.6% at the beginning of the year to roughly 4.2% by its end.

A chink in the armour, though, is that the US isn't making much headway on reducing its government deficit. America spent more than it received in taxes to the tune of 5.9% of GDP in its last fiscal year, which ran to October. That's down from 6.1% in the previous year, but still unsustainably high.

This small improvement was driven by a huge increase in the amount of money received since April's stiff rise in tariffs. As long as they remain in place, this broadening river of money should help reduce the US deficit in coming years. However, the Supreme Court is weighing the legality of President Donald Trump's tariffs,

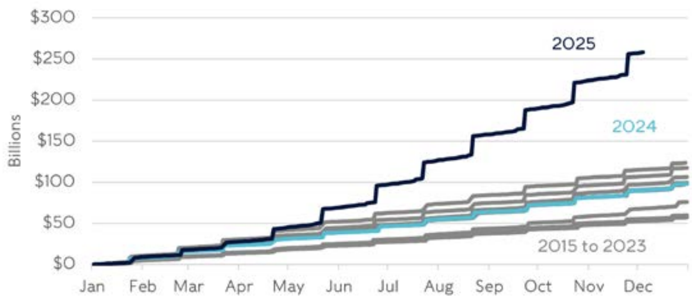


43 days

The length of the longest government shutdown in US history, which ended on 12 November.

with a judgment expected by January (although it may be as late as June). If they rule against the President, it could spark fiscal concerns and inject more uncertainty into the mix. It wouldn't necessarily be the end of Trump's tariff policies, but it would make them harder to implement and more constrained.

TARIFFS PLUG THE US FISCAL GAP BUT COURT RULING LOOMS



Source: Source: Penn Wharton Budget Model based on US Treasury data; cumulative customs duties and related tax receipts for years 2015 to 2025, adjusted for inflation; 2025 to 4 December

It would also come hard on the heels of the longest-ever US government shutdown, which ended on 12 November after 43 days. It interrupted many economic data releases right at a time when the US Federal Reserve (Fed) was balancing the potential for slower GDP growth against a nascent resurgence in inflation. Since the government's reopening, the US has shed jobs rather than adding them and posted the highest unemployment rate in four years (at 4.6%).

The Fed has cut three times since autumn, taking its benchmark overnight interest rate to the 3.50-3.75% range. The central bank is expected to continue cutting into 2026, albeit with lessened momentum. Interest rate markets forecast a bit more than two 25-basis-point cuts in the coming year. As long as the Fed remains sensitive to the economy and stands ready to cut rates to support it, this should assuage concerns among investors.

For now, the US continues to tick along, regardless of the day-to-day uncertainty from the White House. We believe America is bigger and more powerful than one man. It is successful and prosperous because it's open and free and allows its citizens to dream big and win big – or fail big, learn and start again. We will start to worry about the US only when most Americans no longer believe in that simple premise.

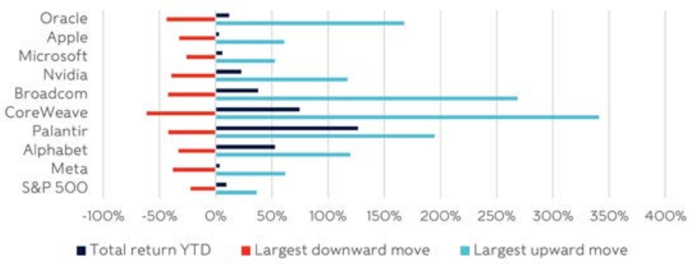
AI: A SONG OF ICE AND FIRE

The enduring sagas of our age are of digital companies, started in garages, that benefited from adding users at virtually zero marginal cost. Think of the artists formerly known as Google and Facebook – and before them Microsoft and Apple. With little need to invest more money in the business or hire staff in anywhere near a linear relationship with the cash that flowed in like a river, these businesses became fantastically profitable over the past 20-odd years. Those days appear to be over: we could be entering a new age.

In this new generation of AI computing, the addition of new users requires huge outlays before the cash comes in the door. This will require different calculations from investors, but it's not altogether clear that they have shrugged off the habit of valuing all tech as 'capital-light' businesses (and therefore stopped assuming they are worthy of much higher values). Although, a change may be in train: there were big drops in some companies' share prices in the final months of the year after they announced big spending with little evidence of greater revenues.

This has led to some red-hot to ice-cold swings for stocks at the forefront of the AI rollout. Search giant Alphabet (which we own) lagged for the first half of the year because investors felt it was being outmatched by rivals before soaring into the second half on very strong profit growth and a new version of its Gemini chatbot that outperforms its peers. AI cloud-computing specialist CoreWeave (which we don't own) took the opposite track: rising rapidly after listing in March it then abruptly slumped towards the end of the year on concerns about its debt, AI spending and widening losses.

THE FIGHT FOR THE AI THRONE HAS BEEN VOLATILE



Source: FactSet; data GBP total return for 2025 to 15 December

When you invest your capital is at risk and you could lose some or all of your investment. Past performance should not be seen as an indicator of future performance.

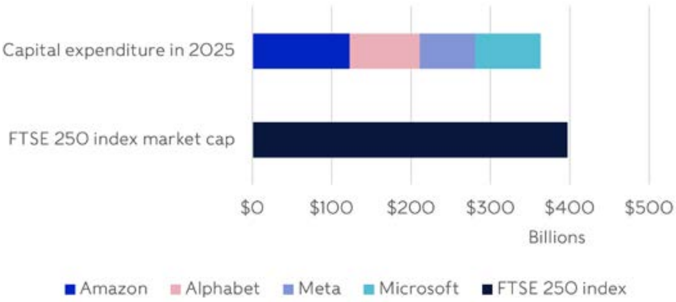
$550bn

The amount the four largest US AI investors expect to invest in AI equipment and infrastructure in 2030.

Those vying for AI supremacy are pouring money into new data centres and research and development efforts to improve their AI tools. The four US AI investors-in-chief, Amazon, Alphabet, Meta and Microsoft (we own all but Meta), are set to invest more than $350 billion combined this year. That would be more than double what they spent in 2023. By 2030, they expect to invest $470bn – and that's without Microsoft's share, as the company doesn't offer capex guidance that far out. If you assume its 2028 spending to be roughly flat, that takes the total to over half a trillion dollars.

There was also a swathe of incestuous deals made throughout the AI ecosystem this quarter, with companies funding or investing in customers who will use the cash to buy more of what they produce. The central party to many of them is ChatGPT creator OpenAI. In 2025 alone the lossmaking operation has committed to spending almost $1.5 trillion over the coming decade with its key suppliers for power, computer chips and cloud computing services. That's three times its market value, and over 100 times its current revenue.

BIG TECH'S ANNUAL AI SPEND RIVALS THE VALUE OF ALL UK MID-CAPS



Source: FactSet; data is calendar year as of 7 November

There is no doubt of the huge opportunity for AI, given how early we are in adoption and the potential for even more powerful tools in the future. Yet some of this money will end up being wasted. It's just the nature of building out bleeding edge technology. The only question is how much.

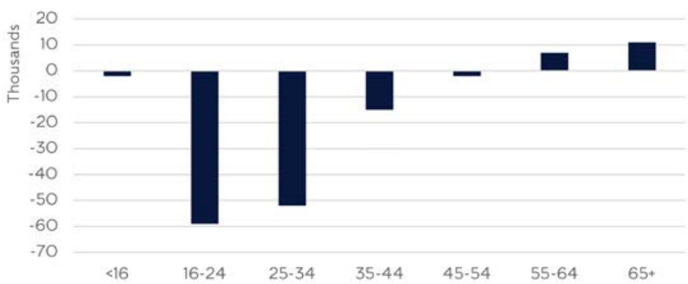
UK CHANCELLOR FEARS BONDHOLDERS MORE THAN TAXPAYERS

Helped by higher estimates of tax receipts and a lesser downgrade to productivity and GDP growth than was expected, the government was able to improve the fiscal outlook with its Autumn Budget.

Part of this extra money went towards greater government spending while the rest was used to boost the fiscal 'headroom' from £10 billion to £22bn. This headroom – essentially the margin of error for whether the government can hit its target to be in surplus by 2029/30 – is still low by historic standards. The Office for Budget Responsibility gives just a 59% chance that the government will meet its goal without having to come back for more tax or cuts to government spending. In return for that, UK taxpayers are staring down the barrel of a bleak remainder of the decade.

The single-largest revenue generator for the government was freezing the income tax thresholds for a further three years, out to April 2031. That drags more people into paying higher taxes earlier, even as their paycheques get watered down by still-high inflation. And the youngest and most aspiring earners are among the worst hit. For young Brits trying to save enough to buy a home of their own (costing almost eight times the median salary), they must earn big money. But for those with the obligatory student loan, their marginal rate (including National Insurance and loan repayments) at £70,000 is 51%. At £100,000, it's 71%, rivalling the levies on 'extraordinary profits' made by UK oil and gas companies drilling in British waters. Earning £100,000 today is the same – in terms of what it will buy you – as earning £56,000 in 2005 (back then incurring a 41% marginal rate). Earn big money today and it gets taxed away ever quicker. Is it any wonder nihilism – or a desire to flee abroad – is slipping into his generation?

THE YOUNG START OF VOTE — WITH THEIR FEET
Net migration of British nationals in year to March 2025



Source: Office for National Statistics; provisional data for year to March 2025

We were disappointed by Labour's lack of conviction and ideas in pulling the country out of the rut successive governments have put it in. You could walk into any café, pub or work canteen and hear talk of the problems our country faces. They aren't hard to spot: an environment that suffocates any project (concrete or abstract) with interminable process, consultation and inquiry-calling; a lack of investment; too much public money being spent for very poor result; and a tax system that's so crooked you can't climb it without an accountant.

At the end of Chancellor Rachel Reeves' speech, the government had pulled off the unimaginable: nothing had really changed, yet the future somehow seemed even worse. What makes politics so infuriating is that while problems tend to be obvious, implementing solutions is fiendishly difficult.

Corrosive though it is, this 'fiscal drag' of frozen tax thresholds is a powerful tax earner, so it has mollified the UK bond market. And to give the government its due, it does seem to be the only high-debt, high-spending advanced nation that's taking fiscal rectitude seriously. Yet it is doing so in a way that saps taxpayers and the economy. We have doubled down on our belief that the UK is heading for recession now. This, coupled with relatively restrained forecasts of UK rate cuts in 2026, leads us to believe that there's more chance of the Bank of England reducing rates deeper than investors expect. Particularly when compared with other advanced nations.

A bit more than half of our government bonds are UK gilts, with the remainder spread among developed nations in Asia, Europe and the US. While inflation is higher here, the trajectory is downward. Meanwhile, growth is shaping up to be especially miserable, which should encourage the BoE to try to stimulate the economy through lower borrowing costs. That should benefit our UK bonds, whose yields tend to fall with the prevailing rate of interest (and therefore their prices rise).

71%

The marginal tax rate at £100,000 for a UK worker (including student loan repayments and National Insurance); UK oil majors pay a marginal rate of 78% on drilling in British waters.

PORTFOLIO ACTIVITY

Key purchases/additions	Key sales/trims
Deutsche Telekom (purchase)	Kion (trim)
Novonesis (addition)	AIA Group (trim)
Partners Group (addition)	SSE (trim)
UK Gilt 4.375% 03/07/2030 (purchase)	Morgan Stanley (trim)
SAP (addition)	Alphabet (trim)

Source: Rathbones

Global stock markets wobbled a bit halfway through the quarter, led by concerns that the very largest AI companies were overdoing their investment in new chips, data centres and power generators. It's still been a strong year to date, however, both for global markets and our fund. The November upheaval just created a Black Friday sale for stocks that we already own and one that we've been watching for some time.

The addition to our portfolio was Deutsche Telekom (DT). Not only is DT one of the largest telco network operators in Europe, but it also owns 48% of T-Mobile, the third-largest network in the US, and 12% of BT in the UK. This means it's really a global player, rather than a domestic champion. T-Mobile in the US is the engine for DT's growth, as it makes up more than half of its company value: America's population is still growing (unlike in Europe) and its customers tend to be more lucrative. We think T-Mobile has strong potential to take share in the US, while DT's German home market has scope for more people to take up fibre internet, which would boost revenues. The business also expects to be able to strip €1bn of costs by 2027 through AI efficiencies, helping it improve an already healthy cashflow.

We added to our existing holdings in Danish enzymes and biopharmaceutical creator Novonesis and Swiss private equity manager Partners Group. Both companies' share prices have lagged the market so far this year, yet we think their long-term prospects are strong.

We have continued to take profits from our well-performing stocks, including German logistics and warehousing equipment supplier Kion, pan-Asian insurer AIA Group, UK-listed energy generator SSE, internet search giant Alphabet and US bank Morgan Stanley. All of these have performed well this year. We also reduced our holding in Swedish locksmith and doors manufacturer Assa Abloy.

Meanwhile, the quest for AI revenue and the race to protect business models from the disruption of AI is widespread, yet software companies are ground zero. Other companies that operate outside the digital realm can perhaps hide a bit more for a bit longer. But the AI wave is hitting many of these software businesses hard right now. Investors have not given academic and technical journals publisher Relx the benefit of the doubt this year.

It's tough to determine which companies are being unfairly marked down by these AI concerns, yet we think Relx hasn't been burying its head in the sand. Instead, it's been investing in AI and its data analytics division for many years before AI really blew up: it seems the sort of data company with strong assets that should *benefit* from AI tools that make its info more accessible and insightful to users. Its earnings per share and profit margins have improved steadily over the past five years with strong underlying cashflow, yet investors are still nervous. We are sticking with the business and added to our holding in November.

In fast changing times, it's tough to know which companies will survive and thrive, and which will go the way of Eastman Kodak. Thinking hard about a company's strengths, weaknesses and the lucidity of its strategy should hold the key to telling the difference.

SPOTLIGHT

IN THIS QUARTER, THE SPOTLIGHT IS ON OUR TESCO AND AND NVIDIA HOLDINGS.

TESCO

- Leading UK food retailer which continues to gain consistent market share thanks to superior execution
- Despite low margins in the industry, Tesco enjoys a strong asset-backed balance sheet and high free cash flow generation with well-invested facilities
- Competitive moats including scale, online capabilities and strong brand positioning. Surveys show Tesco stands out on location, promotions, product selections, online and loyalty promotions as well as voted #2 on Quality
- Additional growth opportunities over the next few years thanks to introducing third party products online and retail media opportunities

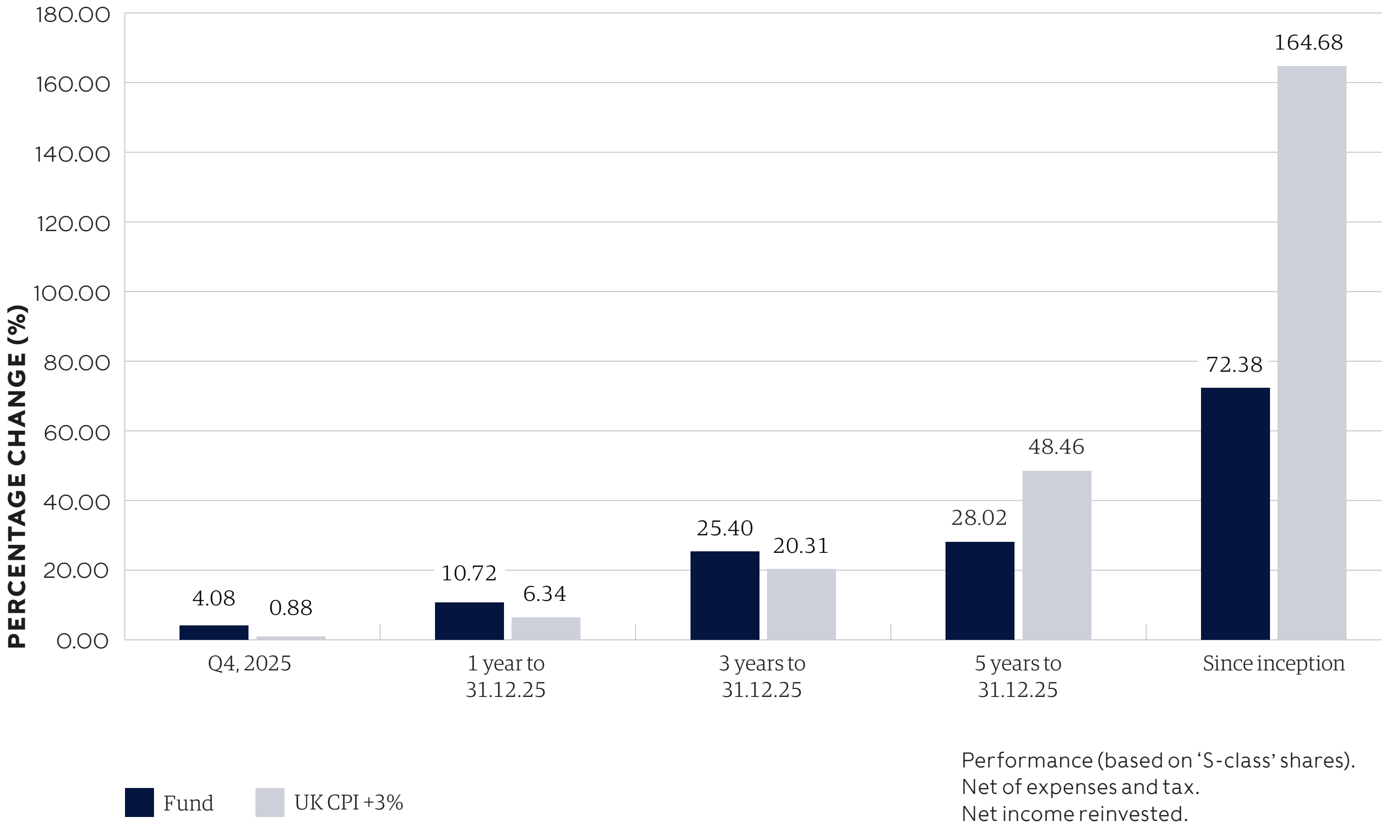
NVIDIA

- Nvidia designs powerful chips, algorithms and software which power electronic products such as computer servers and gaming equipment. 50% of its revenues are generated from hyperscaler customers
- NVIDIA's dominance in powering AI-ready technology stems from a combination of massive installed base, proprietary software, relentless silicon cadence, and vertically integrated systems
- Surging generative-AI demand and new chip ramps (Ruben/Blackwell) underpin growth

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.

FUND PERFORMANCE

RATHBONE STRATEGIC INCOME FUND — QUARTER 4 2025



Performance (based on 'S-class' shares).
Net of expenses and tax.
Net income reinvested.
Data source: FE fundinfo

12-month rolling performance					
Year to:	**End Dec 2025**	**End Dec 2024**	**End Dec 2023**	**End Dec 2022**	**End Dec 2021**
Fund	+10.72%	+5.59%	+7.27%	-6.05%	+8.67%
UK CPI +3%	+6.34%	+5.69%	+7.05%	+13.96%	+8.27%
Annual calendar performance					
Calendar year	**2025**	**2024**	**2023**	**2022**	**2021**
Fund	+10.72%	+5.59%	+7.27%	-6.05%	+8.67%
UK CPI +3%	+6.34%	+5.69%	+7.05%	+13.96%	+8.27%

Price performance based upon bid to bid prior to 21 January 2019 and single price (mid) thereafter.
Past performance should not be seen as an indication of future performance. The value of investments and the income from them may go down as well as up and you may not get back your original investment.

Top performers		
Holding	**Performance**	**Contribution**
Alphabet	+29.04%	+0.26%
Roche	+26.93%	+0.28%
SSE	+26.34%	+0.34%
Barclays	+25.38%	+0.33%
AstraZeneca	+23.32%	+0.28%

Bottom performers		
Holding	**Performance**	**Contribution**
AJ Bell	-18.52%	-0.14%
RELX	-15.10%	-0.17%
Brown & Brown	-14.77%	-0.09%
Home Depot	-14.45%	-0.09%
Aptiv	-11.67%	-0.07%

Price performance based upon bid to bid prior to 21 January 2019 and single price (mid) thereafter. Past performance should not be seen as an indication of future performance. The value of investments and the income from them may go down as well as up and you may not get back your original investment.

Our benchmarks are calculated on the rate of change of the CPI index, over different time periods (e.g. if we were calculating year to date figures in January 2021, we would look at the percentage change from December 2020 to the end of January 2021). So we take CPI to the current value, and add on 3%, prorated over a year (roughly 0.25% per month). If the CPI Index benchmark were to fall, more than the amount pro-rata, the benchmark year-to-date will be negative, even though inflation as reported by the media (calculated specifically as a 12M rate of change), remains positive.

Note: Top and bottom performers are taken from the list of all holdings of 0.25% and above of the portfolio. Performance and contribution data shown above is based on unhedged GBP capital returns.

Source: Rathbones

A bumpy-yet-positive final quarter topped off a bumpy-yet-positive 2025. Our stocks drove our returns in the fourth quarter, and they were an eclectic mix. While it was a strong year overall for the big US tech companies that are vying for AI supremacy, Q4 was more mixed for some of them. The sheer scale of investment in the data centres, power plants and computer chips needed to power AI tools frightened investors, sending many of these erstwhile winners tumbling. This hurt our holdings in digital office tools developer Microsoft, yet this was more than offset by strong returns from other tech holdings which bucked the trend, including internet search giant Alphabet and high-end computer chip printer maker ASML.

Healthcare companies, in the main, did very well this quarter. Our pharmaceutical businesses AstraZeneca and Roche, and laboratory instruments and services supplier Thermo Fisher Scientific, benefited from greater appetite for more defensive businesses (i.e. those whose profits are less dependent on greater GDP growth or AI tailwinds). Roche's drug portfolio delivered slightly less sales growth than expected, yet strong progress on medicines in its development pipeline meant that it could increase its forecasts for 2025 profit. Astra and Thermo outdid analysts' expectations for both sales and profits, increasing their profit margins in the process.

It has been a strong year for global lenders, too. Our US-based banks were no exception, with Morgan Stanley and US Bancorp delivering strong returns for us. Morgan Stanley's investment banking division did well out of the boom in issuance, mergers and other elevated activity on Wall Street. Its wealth arm has delivered strong returns as well, helped by a buoyant stock market and picking up new clients. While US Bancorp is more focused on Main Street America, it also has a capital markets division and wealth customers. It also continued to bring in new customers, offer loans and make more money from the spread between what it pays depositors and what it receives from borrowers.

Our worst-performing stocks were a mix of AI-affected businesses and those buffeted by wider economic weakness in their markets. Academic and professional journals publisher Relx has had a tough time because some believe its business will be gobbled up by AI. We think this is unfair — the business has spent years investing in its own AI tools to improve its service to users, even as its sales and profits continue to grow strongly. It's a similar case for German business data management supplier SAP. Again, the company has invested in AI tools to enhance its products and has increased its revenue and earnings as a result — although, in SAP's case the profit margin has been less resilient. Industrial gas equipment manufacturer Linde suffered a significant set-back in Asia Pacific as its heavy industrial/chemical plant customers have struggled to grow. That hasn't been fully offset by better growth in the US and Europe, particularly in electronics and metals and mining. Meanwhile, American home improvement retailer Home Depot slipped back over the quarter, undoing a summertime recovery. It's been a tough year for the US housing market as mortgage rates remained higher than anyone would have hoped. That's caused a drop in house sales which has flowed through to lessened spending on renovations and the like.

Our bonds delivered reasonable returns, despite most government yields rising over the quarter — the UK a notable exception. These returns were boosted by higher yields than we have seen for many years, meaning a decent income helps offset the ups and downs of the bonds' prices.

ASSET ALLOCATION CHANGES

Asset allocation split	30.09.25	31.12.25	% Change	12 month change
Liquidity (5%-40%)	30.2%	27.0%	-3.2%	-7.8%
Equity-type risk (40%-80%)	66.8%	69.6%	2.8%	6.6%
Diversifiers (0%-40%)	3.0%	3.4%	0.5%	1.2%

For more information on our liquidity, equity-type risk and diversifiers (LED) risk framework, please consult our investor brochure.

Asset class split	30.09.25	31.12.25	% Change	12 month change
Equities	57.8%	59.1%	1.2%	5.9%
UK	22.4%	21.6%	-0.8%	2.1%
US	22.9%	22.1%	-0.8%	-0.9%
Europe	8.1%	11.0%	2.9%	4.7%
Japan	1.4%	1.3%	-0.1%	-0.2%
Asia ex-Japan	3.0%	3.1%	0.0%	0.2%
Emerging Markets	0.0%	0.0%	0.0%	0.0%
Global	0.0%	0.0%	0.0%	0.0%
Index-linked bonds	0.0%	0.0%	0.0%	0.0%
Conventional government bonds	22.0%	22.1%	0.1%	-2.8%
Corporate bonds	8.9%	8.6%	-0.3%	-3.7%
Emerging market debt	0.9%	0.9%	0.0%	0.0%
Private equity	0.0%	0.0%	0.0%	-0.5%
Alternative investment strategies	3.0%	3.4%	0.5%	1.2%
Property	0.7%	0.0%	-0.7%	-0.5%
Infrastructure	0.7%	3.2%	2.5%	2.4%
Commodities	0.0%	0.0%	0.0%	0.0%
Cash	5.9%	2.8%	-3.2%	-2.0%

INVESTMENT OUTLOOK

LOOKING AHEAD TO ANOTHER YEAR, IT STRIKES US THAT VIRTUALLY NO ONE COULD HAVE PREDICTED WHAT WAS SERVED UP NOR HOW MARKETS AND ECONOMIES REACTED.

In a nutshell, the future is not for us to know. Instead, we believe it's our job to think about what could happen, how that would affect economies and markets, and make a plan. We try to create a portfolio that will mitigate the most likely risks, take advantage of opportunities that appear well-priced and ensure that we are diversified enough to protect ourselves from any left-field events.

There are a few risks lurking round as the calendar flips over – there always are. The AI hype continues to build, albeit with a healthy amount of trepidation and second-guessing. Inflation in the US and UK is still very much a live issue (less so in Europe and definitely not in deflationary China). The global economy is slowing, driven mostly by a slowdown in the US and China. Whether that is orderly or snowballs into recession, we will have to see. With both nations' governments and central bankers keenly focused on supporting growth, we have faith that they will do what's needed to avoid catastrophe.

There is some chance of boons as well. The ceasefire in Gaza, fragile as it is, was welcome last year. If the war between Russia and Ukraine can be ended this year, it would alleviate the suffering of millions, and divert billions of dollars from financing destruction to rebuilding and more productive, peaceful endeavours. When the war escalated in 2022, it unleashed a wave of inflation around the world as two of the world's largest suppliers of food, metals and energy were cut off from global markets. Peace could mirror that: delivering a glut of commodities to the global marketplace that tamps inflation down.

Meanwhile, for the first time in many years, government bond markets offer high yields well in excess of inflation. That means there's more room for their yields to fall (prices to rise) if prevailing interest rates fall from here. Yet even if they don't, investors are paid a reasonable amount to hold them. This makes building a mixed portfolio easier than it has been in years past.

But it's the things nobody expects that really upend markets. That's why we continually reassess our holdings to understand how they are likely to react to different shocks. We look at how our holdings react relative to the market and relative to each other. And – crucially – how that could change when markets are slumping, investors are frightened, and usual behaviour goes out the window. True diversification doesn't melt away when you need it most.

If there are any of the commentaries you require further clarification on, then please contact your advisers or Rathbones Asset Management (RAM) at the contact details contained on the RAM website.

WANT TO HEAR MORE FROM THE TEAM

THE SHARPE END PODCAST
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