

RATHBONE ACTIVE INCOME & GROWTH FUND

QUARTERLY UPDATE DECEMBER 2025

Your fund returned 3.9% over the quarter to end December, whereas its UK CPI inflation +3% benchmark returned 0.9%. For the full year, the fund made 12.5%, comfortably outpacing the benchmark's 6.3%.

As 2025 dawned, most economists thought there was a 50/50 chance of recession hitting America. Instead, the world's largest economy and stock market shrugged off a chaotic first year of President Donald Trump's second term and forged ahead. 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 chip away on their goals. For 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.

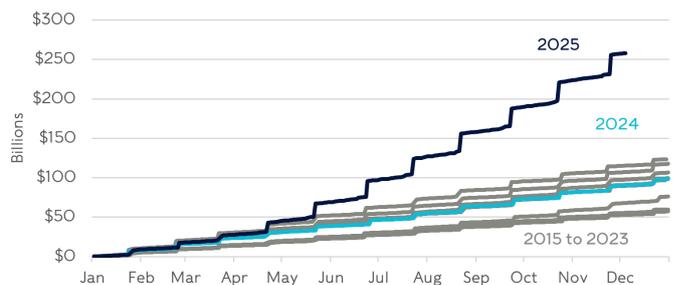
Volatile, but up

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 (taking other nations' bonds with them), 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 Trump's tariffs, with a judgment possible in 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: 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 Dec

The US Federal Reserve (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, as slower GDP growth vies against a nascent resurgence in inflation for the Fed's attention. 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%). 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.

We made money across all parts of our portfolio – direct equities, bonds and collective funds and ETFs – in what was a difficult quarter. The lion's share of our returns came from our gold ETF and our government bonds and high-quality corporate bonds, which illustrates the importance of a well-diversified portfolio.

While our equity portfolio was still positive over the period, there was a big disparity between winners and losers as concerns about AI companies over-investing in the infrastructure for the new tools roiled markets. One of our AI-focused holdings bucked the trend, however: internet search giant **Alphabet** was one of our best performers. The company was spurred on by very strong profit growth and a new version of its Gemini chatbot that outperforms its peers.

Portfolio update

	3 months	6 months	1 year	3 years	5 years
Rathbone Active Income & Growth Fund	3.9%	9.3%	12.5%	30.8%	34.0%
UK Consumer Price Index +3%	0.9%	2.3%	6.3%	20.3%	48.5%

	31 Dec 24- 31 Dec 25	31 Dec 23- 31 Dec 24	31 Dec 22- 31 Dec 23	31 Dec 21- 31 Dec 22	31 Dec 20- 31 Dec 21
Rathbone Active Income & Growth Fund	12.5%	8.3%	7.4%	-8.1%	11.4%
UK Consumer Price Index +3%	6.3%	5.7%	7.1%	14.0%	8.3%

Source: FE Analytics; data to 31 December, mid price to mid price.

These figures refer to past performance, which isn't a reliable indicator of future returns.

Over the quarter we made a series of adjustments to our equities, with the result of marginally reducing the proportion of our portfolio in stocks from 65% to 63%. We took profits from a few companies after strong share price performance, the largest of which was Japanese computer chip testing and measurement equipment maker **Advantest**.

We used the 2% of cash drawn from equities to buy several alternative property and infrastructure investment companies: warehouse-heavy real estate investment trust (REIT) **London Metric Property**, and well-diversified infrastructure companies: **HICL Infrastructure**, **International Public Partnerships** and **3i Infrastructure**. We felt these funds were attractively priced for the strong dividends and discounts they offer. Added to this, we think they should benefit as UK interest rates continue to fall in 2026.

We also took profits from our holding in our **Gold Bullion Securities** and **WisdomTree Physical Gold** ETFs. We recycled part of that money into a new **Credit Agricole 16% Callable** structured product. Structured products are contracts with investment banks that pay out specified amounts in certain scenarios. This one will pay the return of the gold price capped at 16% each year – if the price of gold climbs higher than that we won't benefit. However, in return we get complete capital protection (unless multinational bank Credit Agricole goes bust, which is highly unlikely). Since the beginning of the year, the gold price has soared 65% to \$4,330 (55% in sterling because of general dollar weakness). This seems to be driven by long-term changes in how central banks store their monetary reserves: many emerging market nations, most particularly China and Russia, are buying lots more gold than they used to and fewer US government bonds. With this in mind, we wanted exposure to gold, yet we are still aware that the price is very high, historically speaking.

We swapped our holding in US healthcare conglomerate **McKesson** for Swiss pharmaceutical focused **Roche**. McKesson performed very well this year and it remains a high quality US pharmaceutical distributor and services provider with resilient earnings and attractive prospects for long term growth. Yet we believe the business now offer less compelling forward returns relative to alternatives because of the surge in its share price. McKesson's price had risen to roughly 16 times its forecast earnings for 2026, compared with Roche's 12.5x.

Roche is a specialist in targeted cancer therapies and human sample testing. Driven by its research and development subsidiary Genentech, it has grown from its historical 'big three' cancer antibodies Rituxan, Herceptin and Avastin into areas other than cancer, like neurology. Success stories are in haemophilia (Hemlibra), multiple sclerosis (Ocrevus), immunology and eye disease (Vabysmo). Investors' mood soured on Roche between 2022 and mid-2024 because of pipeline drug failures, erosion of its old brands' market position, and the headwind of a stronger Swiss franc. We believe earnings and pipeline expectations have been reset to low levels, with the potential for a series of positive catalysts from its R&D pipeline. We see decent, and rising, earnings per share growth, with upside to Roche's market valuation coming from its emerging mid-stage drug pipeline. Roche's leading diagnostics business should be better valued for accelerating growth, in our opinion.

We sold Japanese rolling doors and building products manufacturer **Sanwa** because we felt its growth outlook had deteriorated. The business's fortunes are increasingly tied to cyclical demand for construction and renovations around the world (particularly in its largest markets of Japan and the US). With fewer catalysts to drive further re rating and limited exposure to higher growth structural themes, we believe the capital can be better deployed elsewhere.

We bought German technology company **SAP**. In the digital age, data is paramount. The ability to quickly and easily pool, share, ensure accuracy, analyse and protect information is crucial to operate efficiently, avoid catastrophic outages and identify risks and opportunities. Increasingly, businesses are investing heavily in enterprise resource planning (ERP) tools which are effectively the central nervous system of a company. They gather data across all the important functions, such as inventory management, human resources, finance, customer information, sales and marketing, bringing it together in ways that help managers make decisions. SAP designs, builds and maintains this infrastructure for businesses. In the past, these systems – if they existed in any meaningful way – were held in on-premises servers at individual companies, or cobbled together by departments on spreadsheets and other disparate software tools. Nowadays, cloud-based storage and computing services mean easier and quicker maintenance that can be rolled out across thousands of clients at once through push updates. Shared servers and data centres mean better performance for clients and efficiencies for the provider.

Market 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.



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For more info on our fund, including factsheets, performance and fund manager views, please click [here](#).

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