



# Quarterly Investment Report

Cautious Portfolio | Q3 2025 - 1st July 2025 - 30th September 2025



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# Your Investment Manager

## Blackfinch

We're part of Blackfinch Group, an independent investment specialist with a heritage dating back over 25 years. We're a responsible investor working to build positive future prospects. We work closely with your financial adviser to deliver attractive risk-adjusted returns over the long term to help you meet your goals and aspirations. Our investment objectives are centred on delivering returns targeted at beating inflation, against which you and your financial adviser can easily measure us.

### Responsible Focus

As a UN PRI signatory, we take multiple factors into account when assessing an investment. We positive screen for businesses with responsible practices and policies in place. We prioritise investments where there's active engagement on risk-management issues and fund managers value this approach

### Our Approach

Our investment team includes dedicated specialists whose sole focus is the portfolios. We're active investment managers, buying into and selling out of investments, as market conditions dictate. We invest globally, aiming to both capture returns and manage downside risk. Transparency is central to how we work, so you can know where your money is invested at all times.

### An Independent Specialist

As part of an independently owned company, we can look across many investments and strategies to find the most suitable ones. Your portfolio holds a wide range of investments, including shares (equities) and bonds (fixed income). We review, rebalance and restructure the portfolios on an ongoing basis.

### Your Reporting

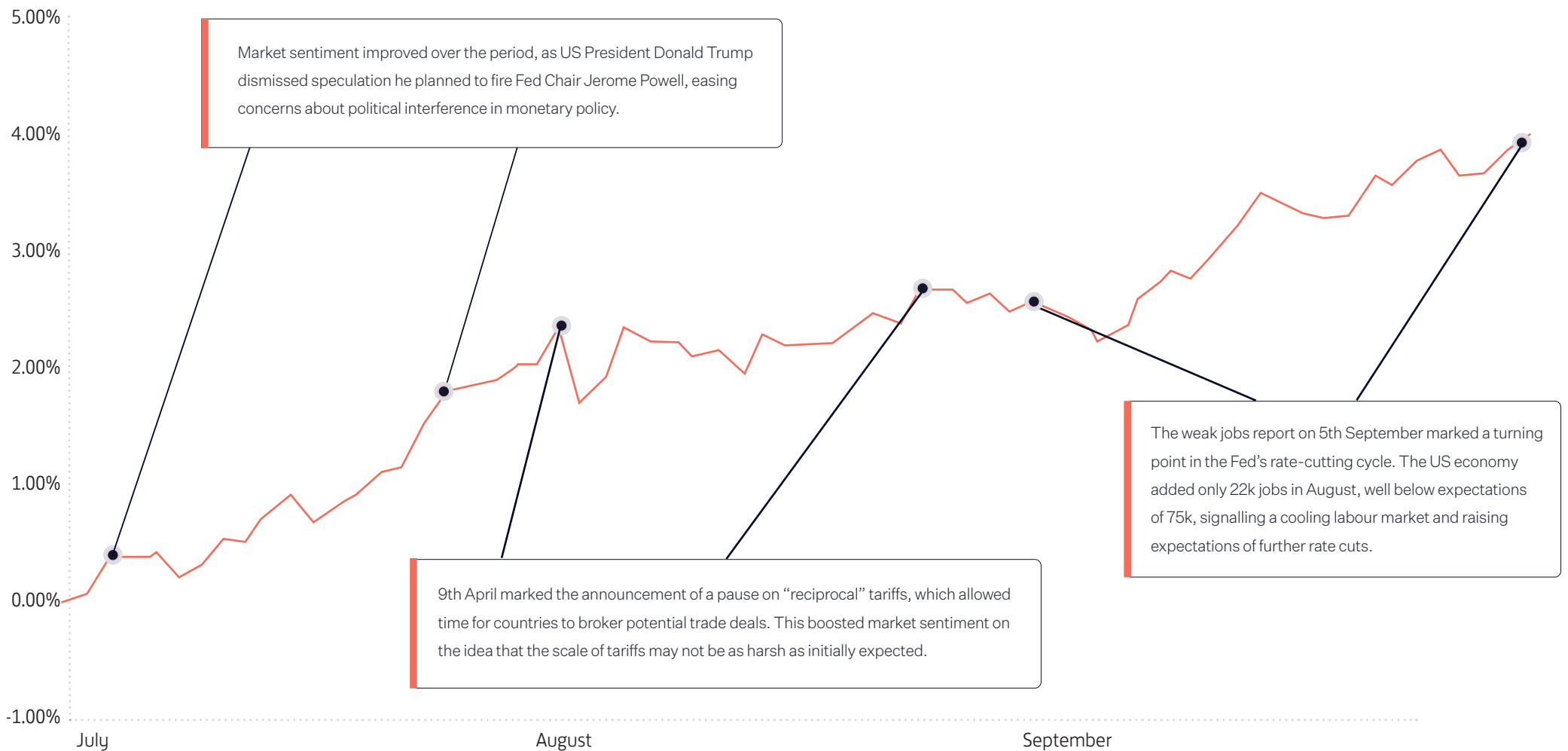
We aim to keep you as up to date and informed as possible. This quarterly investment report gives detail on financial markets and factors that have driven returns. The report is supplementary to monthly factsheets, featuring market commentary and details of portfolio activity. We also provide ad-hoc commentary on topics affecting your portfolio's performance.

# The Last Quarter In Focus

Past performance is no guarantee of future performance.

Date of inception: 2nd July 2018.

All performance figures are quoted net of AMC and fund OCFs.



# A Bird's Eye View

## Global Events

### Impacting your Portfolio

#### Emerging Markets:

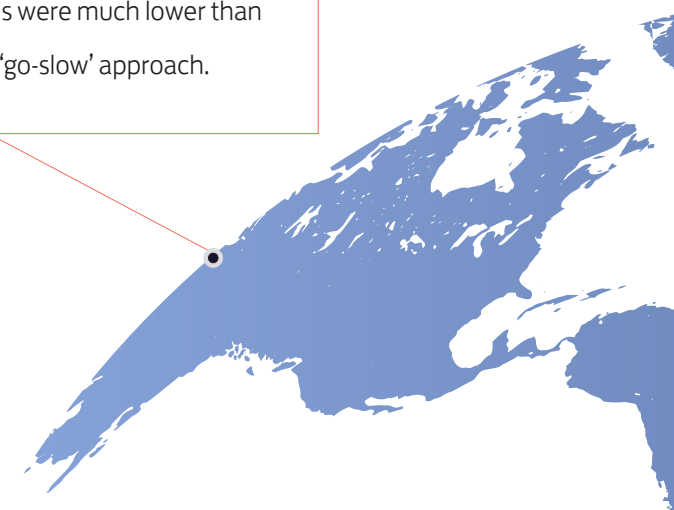
Chinese policy remained steady. The People's Bank of China left benchmark loan prime rates unchanged through the third quarter, while signalling room for modest action in the final quarter, if needed. Despite softer domestic growth, exports proved resilient as companies adapted supply chains around an evolving US tariff framework – highlighting China's central role in redirected global trade routes. More broadly, Emerging Market equities led global returns due to the weaker US dollar and the shift in global trade.

#### United Kingdom

Attention turned to fiscal policy and the 26th November Autumn Budget, with early estimates suggesting a wide funding gap of £20-£50bn. Investors grew increasingly aware of the prospect of the Chancellor either raising taxes or cutting government spending to reduce the shortfall, with annual inflation at 3.8% in August, well above the Bank of England's 2% target.

#### United States

The Fed cut interest rates by 0.25% to a range of 4.00%-4.25% in its September meeting, citing a softer labour market and still-elevated inflation risks. The vote included one dissent in favour of a larger 0.50% move by Trump-appointed Fed member, Stephen Mirran, while Fed commentary stressed a cautious, data-dependent easing path, rather than a rapid cutting cycle. Late-quarter private payrolls were much lower than economists' expectations, again, reinforcing the 'go-slow' approach.



### Europe ex UK

Eurozone headline inflation ticked up to 2.2% in September – just above target – while core inflation held steady at around 2.3%. With inflation broadly “where we want it to be,” according to ECB President Christine Lagard, rates were left unchanged, pausing after an extended cutting cycle since 2024. At the country level, France and Germany remained the key market drivers, as politics and stimulus spearheaded sentiment.

### China

Chinese markets remain focused on Trump’s pause on reciprocal tariffs coming to an end. Reports towards the end of the quarter suggested a deal between the US and China had been struck, but at the time of writing the details remain unclear. A deal with China has clearly been the goal all along, not just for Trump, but also Joe Biden before him. The outcome of trade talks, and any agreement on a global tariff framework, could shape the direction of travel for investment markets.

### Japan

The Bank of Japan (BoJ) left interest rates at 0.50% in September meeting, but calls for a hike grew louder as the Tankan survey showed improving business sentiment and spending plans. Alongside this, the BoJ continued to scale back its massive asset purchase programme, reducing its Japanese government bond buying and signalling that its Exchange-Traded Fund and real estate holdings will be gradually unwound.



# Market Commentary

After the volatile first half of the year, the third quarter felt more like the calm after the storm. The US Federal Reserve (Fed) delivered its first interest rate cut of the year in September, while the European Central Bank (ECB) kept rates on hold as inflation hovered near target in the eurozone. The price of oil drifted lower on rising supply signals, gold pushed to fresh highs from a softening US dollar, and investors continued to parse the growth vs. inflation trade-off of US trade policy. Overall, risk assets broadly continued to climb or hold value.

The Fed cut interest rates by 0.25% to a range of 4.00%-4.25% in its September meeting, citing a softer labour market and still-elevated inflation risks. The vote included one dissent in favour of a larger 0.50% move by Trump-appointed Fed member, Stephen Mirran, while Fed commentary stressed a cautious, data-dependent easing path, rather than a rapid cutting cycle. Late-quarter private payrolls were much lower than economists' expectations, again, reinforcing the 'go-slow' approach. The combination of the rate cut and weaker data took some steam out of the dollar into quarter-end. Though somewhat cooling from its peak, US trade policy still caused volatility in markets. The Trump administration's "liberation Day" tariff framework – 10% baseline tariffs with higher country-specific "reciprocal" rates – continued to evolve, with pauses and carve-outs shaping near-term price dynamics for many sectors, as well as knock-on inflationary impacts.

Eurozone headline inflation ticked up to 2.2% in September – just above target – while core inflation held steady at around 2.3%. The ECB left rates unchanged, with ECB President Christine Lagarde stating inflation is "where we

want it to be," pausing after an extended cutting cycle since 2024. At the country level, France and Germany remained the key market drivers, as politics and policy spearheaded sentiment. In France, Prime Minister Francois Bayrou lost a confidence vote over a €44bn consolidation plan, leaving President Emmanuel Macron to appoint Sebastian Lecornu and attempt a softer path to repairing the country's fiscal burden. Ratings agency Fitch downgraded the country's government bonds to AA- to A+, underscoring concerns around a -5% plus deficit to economic growth as measured by gross domestic product (GDP). By contrast, Germany pressed ahead with its stimulus-heavy agenda: Berlin raised its planned third-quarter debt issuance by €19 billion to fund defence and infrastructure investment – another boost to many listed companies in the region. This was part of a broader 'spend and rebuild' strategy aimed at breaking out of stagnation.

In the UK, attention turned to fiscal policy and the Autumn Budget on 26th November, with early estimates pointing to a sizeable funding gap of £20-£50bn. Investors grew increasingly aware of the likelihood of the Chancellor either



raising taxes or cutting government spending to reduce the shortfall, with annual inflation at 3.8% in August, still well above the Bank of England's 2% target. The combination of stubborn price pressures, weaker business sentiment and sluggish economic growth has reinforced concerns around the resilience of the UK economy, leaving the market sensitive to fiscal announcements. UK equities, however, countered the narrative with robust returns over the quarter, driven by stronger commodity prices that boosted many UK mining and energy companies.

Japan stayed in focus as a potential pivot point for global capital flows. The Bank of Japan (BoJ) left interest rates at 0.50% in September, but calls for a hike grew louder as the Tankan survey showed improving business sentiment and spending plans. Alongside this, the BoJ continued to scale back its massive asset purchase programme, reducing its Japanese government bond buying and signalling that its Exchange-Traded Fund and real estate holdings will be gradually unwound. This shift matters for domestic liquidity and property valuations, and reinforces the view

that Japanese fiscal policy is edging closer to normal. Government bond yields have risen this year, and markets are now pricing in another rate hike into Q4 – an important factor for global asset allocation if repatriation, meaning bringing overseas investments back home, accelerates.

Chinese policy remained steady. The People's Bank of China left benchmark loan prime rates unchanged through the third quarter, while signalling room for modest action in the final quarter, if needed. Despite softer domestic growth, exports proved resilient as companies adapted supply chains around an evolving US tariff framework – highlighting China's central role in redirected global trade routes. Chinese equities performed strongly in sterling terms, supported by confidence that Beijing would provide enough support to steady the economy without returning to the large-scale stimulus seen in the previous cycles. Emerging Markets topped the regional performance tables, helped by the weaker US dollar, lower oil prices boosting the export-driven area, and the shift in global trade, as supply chains diversified away from the US.

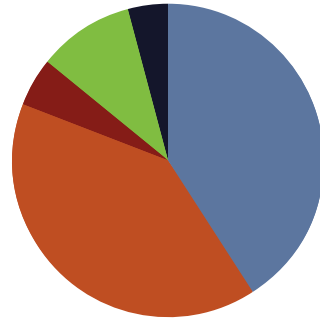
As we enter the final quarter of the year, markets will likely focus on three key factors. First, how central banks respond to their own inflation dynamics, particularly if the Fed cuts rates after its first move in September. Second, how trade tensions and tariff policies develop, given their impact on prices and company profits. And finally, how governments tackle their growing fiscal issues. Overall, we expect markets to remain sensitive, although further rate cuts from the Fed could see risk assets climbing higher.

# Portfolio Breakdown

## Cautious Portfolio

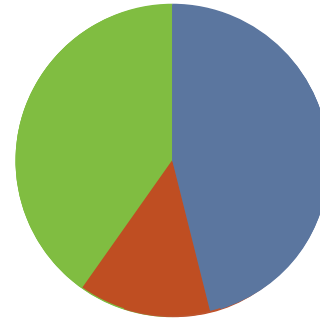
### Investment Objective

The Cautious portfolio is designed to achieve a total return in excess of the Consumer Price Index plus 2% per annum, over a rolling 5 year basis net of fees. The portfolio is globally diversified and contains multi asset investments including fixed income, equities, property, alternatives and cash. As a UN PRI signatory, responsible investing is implemented through a positive screening approach whereby investments are not solely excluded based on the sector in which they operate. There is no guarantee that the objective will be met or that a positive return will be delivered over any time period. Capital at risk. All data is at 30th September 2025.



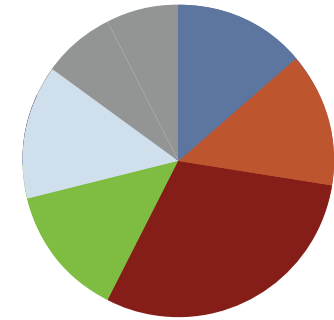
Tactical Asset Allocation

|                   |               |
|-------------------|---------------|
| Fixed Income      | <b>41.00%</b> |
| Equities          | <b>40.00%</b> |
| Property          | <b>5.00%</b>  |
| Alternatives      | <b>10.00%</b> |
| Cash & Equivalent | <b>4.00%</b>  |



Fixed Income Breakdown

|                            |               |
|----------------------------|---------------|
| Sterling Corporate         | <b>46.34%</b> |
| UK Government              | <b>13.41%</b> |
| UK Index Linked Government | <b>0.00%</b>  |
| Global Bonds               | <b>40.24%</b> |



Equity Breakdown

|                       |               |
|-----------------------|---------------|
| United Kingdom        | <b>13.75%</b> |
| Europe Ex UK          | <b>13.75%</b> |
| North America         | <b>30.00%</b> |
| Japan                 | <b>13.75%</b> |
| Asia-Pacific Ex Japan | <b>0.00%</b>  |
| Thematic              | <b>13.75%</b> |
| Emerging Markets      | <b>15.00%</b> |

# Portfolio Holdings

## Cautious Portfolio

### Fixed Income

|  |              |
|--|--------------|
| Man GLG - Sterling Corporate Bond                | <b>8.00%</b> |
| PIMCO - Income                                   | <b>6.00%</b> |
| iShares - Corporate Bond Index (UK)              | <b>6.00%</b> |
| Vanguard - UK Government Bond Index              | <b>5.50%</b> |
| iShares - ESG Overseas Corporate Bond Index (UK) | <b>5.00%</b> |
| L&G - Short Dated Sterling Corporate Bond Index  | <b>5.00%</b> |
| Vanguard - US Government Bond Index              | <b>3.00%</b> |
| Aegon - High Yield Bond                          | <b>2.50%</b> |

### Equities

|  |              |
|--|--------------|
| L&G - S&P 500 US Equal Weight Index                | <b>6.00%</b> |
| Artemis - SmartGARP Global Emerging Markets Equity | <b>6.00%</b> |
| iShares - US Equity Index                          | <b>6.00%</b> |
| Blackfinch - NextGen Infrastructure                | <b>5.50%</b> |
| HSBC - European Index                              | <b>5.50%</b> |
| Fidelity - Index Japan                             | <b>5.50%</b> |
| Vanguard - FTSE 100 Index                          | <b>5.50%</b> |

### Property

|  |              |
|--|--------------|
| Blackfinch - NextGen Property Securities | <b>5.00%</b> |
|--|--------------|

### Alternatives

|                                   |              |
|-----------------------------------|--------------|
| TM Tellworth - UK Select          | <b>5.50%</b> |
| Janus Henderson - Absolute Return | <b>4.50%</b> |

### Cash & Equivalent

|                              |              |
|------------------------------|--------------|
| CanLife - Sterling Liquidity | <b>2.00%</b> |
| Cash                         | <b>2.00%</b> |

# Portfolio Activity

## Fixed Income

The third quarter of the year proved challenging for fixed income assets. While the first US rate cut of the cycle was welcomed, uncertainty over the global outlook for inflation and interest rates made it difficult for investors to price assets with confidence, leading to nervousness in the market.

Despite the textbooks telling us that government debt should be the safest of fixed income assets, that has not felt the case for some time. Governments are walking a fine line between stimulating growth without reigniting inflation, and investors are unconvinced they can do so. While US government debt posted marginally positive returns, the UK Gilt market underperformed, and our holdings fell by 0.78% over the quarter. While this isn't disastrous by any means, this was one of very few positions to decline in the period.

Ahead of the UK Budget in November, we chose to reduce our UK government bond exposure and increased our weighting in both short-dated corporate bonds and high yield debt. Both asset classes are less sensitive to changes in both fiscal and monetary policy, and offer attractive income relative to their level of risk.

## Property

As with fixed income, property asset valuations are inextricably linked to expectations for future interest rates, given the sector's reliance on borrowing to fund its activity. However, property managed to shrug off the uncertainty and posted solid gains for the quarter. The US interest rate cut helped sentiment, and our exposure to the sector rose by 3%. We continue to see property as a key diversifier within a well-balanced portfolio, and believe the outlook remains positive, given valuations are attractive and further re-ratings could be seen should interest rates fall further.

# Portfolio Activity

## Equities

Equity markets climbed steadily higher throughout the quarter, without much of the market volatility prevalent the first half of the year. China and the wider emerging markets were the standout region, posting double-digit returns, as renewed investor interest followed years of neglect. Attractive valuation levels, and the continued resilience of the Chinese economy, despite trade tensions with the US, helped drive the gains.

A strong earnings season lifted US equity markets early in the quarter, with tech names continuing to benefit from the artificial intelligence (AI) spending frenzy. Taiwan, home to some key manufacturers at the heart of the AI boom, also posted strong gains. While UK and European equity markets were more muted, they too delivered strong returns, with indices reaching record highs several times during the quarter.

We cut our direct exposure to US small cap companies late in the quarter. While the outlook remains positive considering the upcoming support of Donald Trump's 'Big Beautiful Bill', opportunities are available across other regions. We therefore reallocated capital to a Global Smaller Companies fund, which retains its largest exposure to the US, but can also seek out attractive investments across Europe, Japan and Asia.

## Alternatives & Cash Equivalents

We adjusted our Alternatives exposure in the quarter, as one of our key holdings began to display levels of volatility marginally higher than expected. We expect our Alternatives holdings to grind out smooth, uncorrelated returns in all market conditions, so any pickup in volatility is something we watch closely for. After speaking with the fund managers, we believe this is simply a by-product of the current market conditions, and not indicative of any wider issue with the fund. We therefore marginally reduced exposure and will continue to monitor the fund closely. All other holdings in the asset class continued to perform as expected, positing positive returns for the quarter.

# Important Information

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Blackfinch Asset Management has taken all reasonable care to ensure that all the facts stated in this report are true and accurate in all material respects. While there are no other material facts or opinions which have been omitted where the omission of such would render this report misleading, no representation or warranty, expressed or implied, is given as to the accuracy or completeness of the information or opinions contained in this report.

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The Blackfinch MPS Portfolio range may not be suitable for all investors and we would recommend that prospective investors seek independent advice before making a decision.

