SARASIN
RESPONSIBLE MULTI ASSET

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ECONOMIC REVIEW

All asset classes delivered positive returns over the quarter. Uncertainty over tariffs subsided, economic growth remained resilient (supported by expectations of further interest rate cuts) and returns benefited from the impact of artificial intelligence (AI).

Japan led global market strength, boosted by a US/Japan trade deal and a weaker yen. US equities delivered a positive return over the quarter, with technology stocks performing best. Lower interest rates also provided some support.

Bond markets had mixed fortunes but were generally positive. Rate cuts were good news for US Treasuries, while high-yield bonds were the leading performers. Stubborn inflation data and economic concerns caused slight declines in UK government bonds.

Gold prices reached record highs, with other precious metals also delivering strong returns. Meanwhile, oil prices fell back.

FUND REVIEW

ASML, a leader in lithography machines, contributed significantly. The company benefited from AI and semiconductor demand. ASML posted strong quarter two results. This, together with a positive outlook, supported the share price. Ross Stores was a positive contributor, the discount apparel and home fashion retail chain, posted encouraging quarter two results against a backdrop of weaker consumer spending. Our long-term thesis suggests that it increase its sales through a gradual store- roll out.

Fortinet, the firewall provider, disappointed markets. Management admitted overestimating demand from existing customers. However, our analysis of the company's financial results shows strong fundamentals. We believe Fortinet met expectations and that the share price reaction was overdone. London Stock Exchange Group announced disappointing second quarter results. This was due to weaker-than-expected growth in subscription revenues. However, strong transaction-based revenue supports near-term organic growth. We remain confident in the long-term story.

FUND TRANSACTIONS

We started a position in Straumann, a high-quality dental implant manufacturer. Market concerns over US consumer weakness and interest rates presented a decent valuation opportunity in a company we see as a long-term winner in a profitable sector.

Another purchase was Marsh & McLennan, the world's largest insurance broker. Around 60% of the company's revenues come from brokering insurance contracts, earning fees or commissions without taking on credit risk. The remainder comes from its consulting businesses. We believe the market underappreciates Marsh's ability to increase its revenue.

We reduced the holding in Tetra Tech to reflect our concerns over reduced federal spending.

OUTLOOK

Global economic growth is likely to be softer in the coming months. In the US, growth is moving from consumption to production and investment, while in Europe, it is pivoting away from exports to domestic demand. There are still inflation risks in advanced economies and stagflation pressures could intensify. However, central banks appear willing to support economic growth objectives, even while inflation remains above target across much of the developed world for the fourth consecutive year.

We have moved to an overweight position in equities compared with our benchmark, as corporate earnings appear to be recovering. Our underweight in corporate bonds and neutral stance on government bonds reflects our view that fixed income assets do not currently offer strong returns or adequate diversification compared to their history. Our above-benchmark gold position provides some protection against market volatility and the erosion in value of fiat currencies (government-issued money with value based on trust, not backed by a physical commodity) from inflation.

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SARASIN & PARTNERS LLP

Juxon House, 100 St. Paul's Churchyard
London EC4M 8BU

T +44 (0)20 7038 7037
www.sarasinandpartners.com