SECOND QUARTER 2025

GROWTH WITH ENHANCED INCOME

Global markets contended with a turbulent macroeconomic landscape, largely shaped by evolving U.S. policy initiatives. After market consternation following early-April news of reciprocal tariffs, investor sentiment on the issue improved following eventual de-escalation efforts including 90-day pauses and emphasis on trade talks. Despite these efforts, the persistence of elevated tariffs and policy uncertainty continued to reshape the global economic environment. Consensus forecasts, led by U.S. revisions, shaved global growth expectations and pushed inflation projections higher. Global economic activity, while distorted by trade data and front-loading ahead of tariffs, proved relatively resilient. Inflation pressures were subdued across several major economies, but core inflation rates remain technically above central bank targets. Financial markets performed well in the second quarter with gains across most major asset classes. Equity markets proved quite resilient with double-digit gains for U.S. equities despite a 10%-plus sell-off in early April. U.S. equities received a substantial boost from megacap tech, given the resurgence in optimism around AI adoption. The U.S. dollar weakened throughout the quarter, benefitting returns for non-U.S. equity indexes in dollar terms. Fixed income returns were positive but much lower than equities. U.S. credit spreads tightened while longer-term interest rates were modestly higher, resulting in a more favorable setup for high yield fixed income versus investment grade.

We made no asset allocation changes in the quarter. The tactical asset allocation approach of the portfolio focuses on positioning appropriately for the current financial market and economic backdrop with a focus on downside mitigation.

The portfolio underperformed in the second quarter with headwinds mainly driven by fund implementation. Strategic positioning modestly weighed on performance as real assets and high yield fixed income failed to keep pace with global equities. Fund implementation in the portfolio is geared towards providing additional income. This approach detracted from performance in the quarter, with most of the drag concentrated in global equities as impacts within fixed income were slightly positive. With regards to fixed income fund implementation, our credit-scored intermediate corporate bond (SKOR) was the largest contributor. Within equity fund implementation, our quality dividend U.S. equity (QDF) and our quality dividend international equity (IQDF) were both detractors as yield-related equity factor exposure lagged broader U.S. and non-U.S. equity market indexes.

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