SECOND QUARTER 2025

GROWTH WITH 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 three changes in asset allocation in the quarter. Across tactical changes in April and May, we reduced risk and moved closer to neutral with changes in a number of asset classes, while still remaining modestly overweight global equities overall. In aggregate, the changes included moving from overweight to equal-weight in U.S. equities, emerging market equities, high yield fixed income and global real estate, and moving to overweight in non-U.S. developed market equities and cash. We also slightly increased our investment grade fixed income and inflation-linked fixed income allocations. The April changes reflected a preference to avoid de-risking too quickly after the early April equity market sell-off, while the May changes were also influenced by the subsequent recovery in equity markets and concern that markets were possibly too optimistic on trade negotiation progress. In June, we further added to our global listed infrastructure overweight, reflecting a more attractive earnings outlook for the asset class and exposure to technology-related themes such as global power demand. This move was funded by a reduction in global real estate. Currently, the portfolio has overweights in global listed infrastructure, cash and developed ex-U.S. equities, funded by underweights across investment grade fixed income and global real estate. The portfolio ended the quarter with a slightly higher risk level than its strategic benchmark.

The portfolio was slightly behind the benchmark in the quarter as benefits from tactical positioning were unable to overcome headwinds from strategic positioning. Strategic positioning detracted from performance as real assets and high yield fixed income trailed global equities. Tactical positioning benefited performance primarily due to the underweight to investment grade fixed income and the overweight to non-U.S. developed market equities, partially offset by the overweight to cash (previously underweight and equal-weight). Our quality large cap U.S. equity (QLC), our broader-based developed markets ex-U.S. factor tilt (TLTD) and our diversified investment grade fixed income (BNDC) were the main contributors in terms of fund implementation, while our broader-based U.S. market factor tilt (TILT), our global listed infrastructure (NFRA) and our broader-based emerging markets factor tilt (TLTE) were the main detractors.

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