7IM COMMENTARY

Quarterly Responsible Choice Rebalance Commentary

DECEMBER 2025

We rebalanced our model portfolios on 3 December 2025. In this update, we cover:

- Changes to the asset allocation and underlying fund managers
- 7IM Responsible Choice long-term themes
- What's happening in markets
- 7IM's investment views

Asset allocation changes

At the December model rebalance, 7IM made the following changes to portfolios:

- Small increase to equity exposure, primarily through US, European and Japanese equities. The global economic environment continues to be positive.
- Small reduction of bonds, as expectations for interest rate cuts are already reflected in the current prices.
- Rotated some US mid-cap exposure into larger US companies, while continuing to ensure broad diversification within US equities.

Manager changes

There have been no changes to the funds used in the portfolios in this rebalance.

7IM Responsible Choice long-term themes

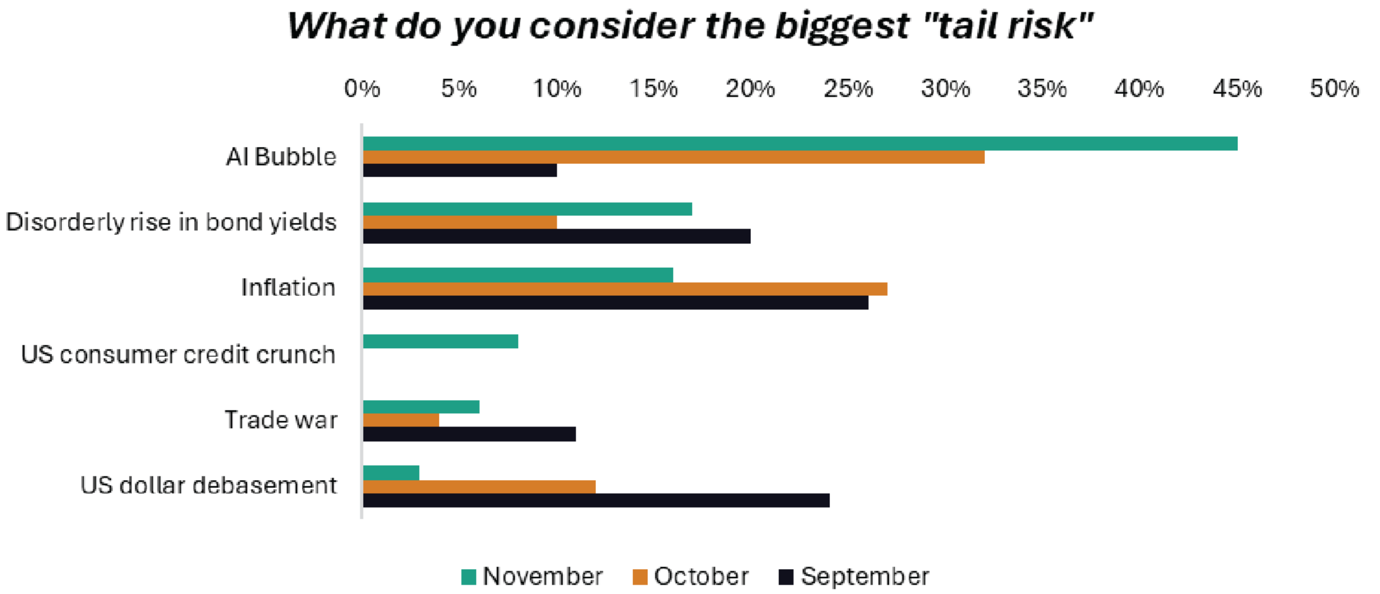
Portfolio themes	Comment
The Future of Humanity	The COVID crisis has shown how important healthcare is and, in a world where nearly a quarter of Europe's population will be over 65 by 2030, healthcare will become more and more important. Over 50% of new drugs under development are targeted at the over-65 cohort.
The World is Getting Warmer	Climate change is one of the biggest threats that humanity faces in the future. Without drastic action, the planet will warm by more than the 1.5% level agreed at the Paris Agreement. Clean energy opportunities will emerge through solar, wind and hydropower. Control of energy supplies is becoming increasingly important – governments are only going to invest more money in the area.
ESG Transition Leaders	Companies are cleaning up their business models (even if not helping directly with climate change), such as when a bank cuts the use of paper, or an airline goes lower carbon.
Automation and Digitalisation	Companies are designing products/solutions which improve processing, connectivity and production and help clean up the world. Think AI, electric cars, food chain technology and supply chain management.
Evolving Consumption	Companies looking to design their products around consumption that fits health and wellness, the circular economy, travel and experiences and consumer lifestyles.
Global impact	Impact investments are those that lead to a material and measurable improvement in environmental and social problems. The Bluebay Impact Aligned Bond Fund is a global corporate bond fund that invests in both ESG-labelled bonds (green and social bonds) and bonds issued by ESG leaders. We also have the Amundi Emerging Market Green Bond fund, which helps finance much-needed environmental projects in emerging markets.

What's the Mood in Markets?

It's been a strange year for investors. Of course, there's no such thing as a normal year, but the difference between investment sentiment and market returns has felt particularly stark – the list of things to worry about has piled up and up and up… and yet stock markets have also continued up and up and up.

A November survey of global fund managers conducted by Bank of America gives a pretty good picture of what's keeping everyone up at night:

Bank of America Fund Manager Survey: What do you consider the biggest "tail risk"



Source: Bank of America

It's a good way to see what money managers are worried about, as well as how that's changed. Back in September, it was inflation and the US dollar weakening vs. other currencies ("dollar debasement"), whereas in November, it's been Artificial Intelligence (AI). And that's been the story all year, with fears jumping from one asset class to another; worry-whack-a-mole.

And yet, as we creep towards Santa's arrival down our chimneys, stock markets are continuing to hit new highs – not just in the US, but in the UK, Europe, Japan and Emerging Markets, led by China and Korea. Barring any festive fiascos, 2025 will have turned out to be a year of double-digit returns for all but the most cautious of portfolios. Good news!

Looking ahead, we're not seeing many alarm bells ringing. Across the world, interest rates are likely to drift downwards as central banks continue to balance inflation and unemployment – both of which are at broadly acceptable levels in the US, UK and Europe. Oil prices have stayed near post-COVID lows, and economic survey data reflects rising confidence. Lower interest rates should boost growth and make debt slightly easier for consumers and companies to bear.

While there's no need to be complacent about a benign outlook, we also don't see too much of a need to worry. In weather forecast terms, we're seeing a picture that's sunny, with intervals of cloud – so we'll be heading out on a nice, crisp festive walk, but bringing a raincoat just in case. We have our usual amount of equities and bonds (spread widely around the world), alongside a little bit of cash in case any opportunities emerge.

7IM Investment Views

After three or four years where markets were driven by a small group of winners, we are starting to see different drivers of portfolio return. Diversification is being rewarded; in 2025, we have not seen one specific trade dominate market returns, but instead experienced returns from a sprawl of regions and sectors.

Over the next 12 months, we expect:

Economic growth to be positive, but unspectacular. Inflation to continue to be a concern for consumers, but – absent something dramatic in the energy markets – it's under control from the perspective of a central banker.

So how should we invest for a world which isn't at extremes, and where diversification is rewarded?

Well, that's how we've been building our portfolios for over twenty years. A framework which lets market forces do the work – spreading our allocations widely doesn't need a reason. We don't have much more or less in equities than usual; 'the usual' is fine, given the signals we're seeing. No point in reaching for risk if there's no need, and no point running scared either.

Given strong returns from the likes of industrials, utilities and financials this year, we'd also expect to see investors continue to re-engage with businesses outside the technology sector, which probably means looking further afield than the United States. A flexible approach to picking different sectors remains key to ensuring a diversified approach to investing.

In an increasingly uncertain world, with various regions starting to decouple and go their own way, diversification is the best (only?!) answer. We've been doing it for more than two decades, and we're just as convinced that it will deliver.

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Tactical Asset Allocation

Macro	Headline risk allocations, reflecting 6-12 month macro outlook
Equity	Neutral: Economic data is still noisy in the short-term; whether through the whiplash of tariff-on/tariff-off or the scarcity of data thanks to government shutdowns in the US. Our signals suggest there's no need to take risk. A neutral position, in the context of broad diversification.
Fixed Income	Neutral: In uncertain times, defensive assets can prove useful – even if it's not obvious exactly when. While some people are worried about rising government debt burdens, we still believe that in times of stress, safe-haven assets will deliver. Getting paid for protective assets is never a bad idea – even if disaster doesn't happen. It's important to note that we hedge the currency of our quality fixed income back into Sterling.
Diversifiers	**Evidence-based diversifiers, which outperform through multiple market cycles**
Diversified Sustainable Leaders	Companies leading in areas such as environmental innovation, social progress, and governance best practice are central to driving economic growth while supporting the development of a more sustainable global economy. This also includes responsible companies, which are currently underappreciated by the market. Targeting such leaders allows the portfolio to capture opportunities across multiple sustainability themes, combining financial performance with positive contributions to sustainable development.

Please note: All of the comments in this document refer to the models we run on the 7IM platform, but the models are also available on a range of other platforms. As much as possible, we try to replicate the models we run of the 7IM platform across all platforms, but due to differing security availability, not all of the points outlined in this document may be relevant across these platforms. If you are unsure whether certain changes apply to models on a specific platform, please reach out to a member of the team.