FIRST QUARTER 2025

GROWTH WITH ENHANCED INCOME

Policy uncertainty was the main surprise for the investor community in the first quarter. Trade policy was the focal point with potential widespread implications for both global trade and geopolitical relations. The U.S. economy remained on decent footing in the quarter. However, policy uncertainty weighed on survey-related economic data, with perceived risks around lower growth and higher inflation. This helped lead to fading U.S. economic momentum versus non-U.S. peers – a U.S. advantage over the better part of the last two years. First quarter financial market returns were generally positive aside from losses in U.S. equities. The confluence of a less-positive outlook for U.S. megacap tech and broader policy uncertainty led to headwinds for U.S. indexes, with the S&P 500 reaching a 10% correction. European and emerging market equities both outpaced the U.S. in dollar terms. Both regions benefited from a rebound off a weaker starting point versus the U.S., plus the historic re-alignment in German fiscal policy (for Europe) and China tech-related strength (for emerging markets). On the fixed income side, after rising early on, U.S. interest rates moved lower for the quarter while credit spreads widened. Net, this led to modest positive total returns for broader fixed income indexes. Real assets generally outperformed global equities, with stronger performance in natural resources and global listed infrastructure.

We made one asset allocation change in the quarter. In January, we adjusted the portfolio for our annual strategic asset allocation update. Overall, the asset allocation changes included increases to inflation-linked fixed income, global equities, global real estate and global listed infrastructure funded by reductions in investment grade fixed income, high yield fixed income and natural resources. 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 outperformed in the first quarter with benefits from both strategic positioning and fund implementation. Strategic positioning helped performance as real assets and high yield fixed income outpaced global equities. Fund implementation in the portfolio is geared towards providing additional income. This approach helped performance in the quarter, with support primarily from global equities as impacts within fixed income were slightly negative. With regards to fixed income fund implementation, our value-scored high yield fixed income (HYGV) was the largest detractor. Within equity fund implementation, our quality dividend U.S. equity (QDF) and our quality dividend international equity (IQDF) were both contributors as yield-related equity factor exposure was helpful across both U.S. and non-U.S. equity markets.

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