

Aberdeen Target Return MPS

Quarterly commentary

Q2 2025

Investors should remember that the value of investments and the income from them can go down as well as up and that past performance is not a guarantee of future returns.

This report is only for use by a financial adviser or a client who has received advice on investing in this managed portfolio service. It is not for use by non-advised investors or any other third party. For full important information and key risks, please refer to the end of this document.

Objective

The Aberdeen Target Return Managed Portfolio Service (MPS) is designed to target a return of SONIA +1%, +2%, 3%, 3.5% and 4% (after assumed fees and charges of 2%) through an actively managed discretionary portfolio.

Discrete annual returns – year to 30/06

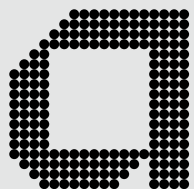
	2021	2022	2023	2024	2025
Aberdeen Target Return MPS 1	3.70%	-5.88%	-2.53%	6.65%	5.59%
SONIA +1%	1.05%	1.35%	4.12%	6.19%	5.71%
Aberdeen Target Return MPS 2	6.05%	-6.91%	-2.93%	8.12%	6.00%
SONIA +2%	2.05%	2.35%	5.15%	7.24%	6.76%
Aberdeen Target Return MPS 3	8.56%	-7.92%	-3.30%	9.59%	6.15%
SONIA +3%	3.05%	3.36%	6.18%	8.28%	7.80%
Aberdeen Target Return MPS 4	10.31%	-8.32%	-1.87%	10.90%	6.54%
SONIA +3.5%	3.55%	3.86%	6.69%	8.81%	8.32%
Aberdeen Target Return MPS 5	12.30%	-9.36%	-0.83%	11.92%	6.47%
SONIA +4%	4.05%	4.36%	7.21%	9.33%	8.84%

Portfolio performance is based on Aberdeen Target Return MPS hosted on the Aberdeen Wrap platform. Performance figures are net of the abrdn Portfolio Solutions Ltd management fee and underlying funds OCF. Source: Aberdeen, Financial Express. As at 30.06.2025, ARC Private Client Indices are based on actual client portfolio returns provided by various investment management companies. These portfolio returns are allocated to one of four categories based on the volatility of their returns relative to world equities, and an average return is calculated for each category. Grouping portfolios by their volatility differs from the traditional approach, which compares portfolios which have similar asset allocations. Instead, investment managers may use whatever asset allocation they consider appropriate to achieve the desired levels of return and volatility.

Key points

- Global equity markets ended the quarter notably higher, supported by substantial US-China tariff reductions, though ongoing trade policy uncertainty persisted.
- Middle East tensions escalated following direct US involvement in the Israel-Iran conflict before a US-brokered ceasefire helped ease concerns.
- While disinflation supported expectations for lower interest rates, central banks maintained a data-dependent stance given tariff-driven inflation. Meanwhile, concerns over China's economic outlook and the prolonged Russia-Ukraine war remained key risks for investor sentiment.
- Yields on 10-year government bonds fell across most major economies as easing price pressures fuelled expectations of rate cuts. However, those in the US ended flat as safe-haven demand from Middle East tensions was offset by inflation concerns linked to President Trump's tariff announcements. Corporate bonds performed well after an initial sell-off triggered by President Trump's sweeping tariff announcement in early April. High-yield bonds led the gains, as strong investor demand drove their spreads to notably low levels, while investment grade bonds also held up well due to their lower-risk profile.





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Market commentary

"I don't want anything to go down, but sometimes you have to take medicine to fix something." Donald Trump

Confounding medical logic, US President Donald Trump's words in early April sparked a severe bout of volatility across markets, following his surprise 'Liberation Day' announcement.

You didn't need to be an ophthalmologist to see what a sight for sore eyes global markets had become. Trump's declaration of a baseline 10% tariff on all US imports, alongside a raft of 'reciprocal tariffs' affecting dozens of countries and an initial 54% tariff on Chinese imports, later escalated to 125%, sent investors scrambling. Trading volumes hit record highs as all three major US indices touched their lowest levels in more than a year.

Of course, any haematologist could tell you that tariffs seem to be in Donald Trump's blood. So when he staged a dramatic change of heart just days later, even a cardiovascular surgeon might have struggled to keep pace. The market reaction to Trump's 'tariff medicine' included a sell-off in US Treasuries and the largest spike in yields in more than 40 years. Under pressure, the administration was forced to partially reverse course, suspending all the newly announced tariffs for 90 days with the exception of those targeting China.

The Trump administration's sudden U-turn injected a fresh dose of optimism into US markets, with the S&P 500 closing up 9.5% on the day – its best day since August 2008. Relief spread throughout Asian and European markets the following day. Japan's Nikkei led the charge, surging 9%. But much like many forms of medicine – Trump administered or otherwise – not all remedies work as intended. The President's repeated attempts to pressure the US Federal Reserve into lowering borrowing costs proved to be in vain – though perhaps more aptly in vein. Despite thinly veiled threats of intervention, the central bank stood firm, cautioning that the incoming wave of tariffs could be inflationary. Officials reiterated their commitment to a data-dependent approach.

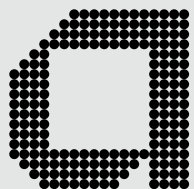
While not quite an A&E situation, the quarter also saw the US lose its coveted AAA credit rating. Moody's downgraded it to Aa1 citing a persistent failure by successive US administrations to rein in ballooning deficits and mounting interest obligations.

Taking the pulse of a weakening continental economy, the European Central Bank (ECB) cut rates by 25 basis points in both April and June – marking the eighth consecutive meeting where such a move was made. However, during the June announcement, ECB President Christine Lagarde struck a more measured tone, stating that the central bank was in a "good position" with its current rate path. Investors interpreted this as a possible pause in the easing cycle, if not the end of it altogether.

Meanwhile, annual inflation in the eurozone fell to 1.9% in May, in line with expectations and down from 2.2% in April. Despite the fall in inflation, German bund yields rose as markets priced in higher public borrowing, driven by increased defence spending. This followed NATO's new target for member states to allocate 5% of GDP to defence, up sharply from the previous 2%.

After a relatively weak start to the year, still reeling from Labour's Budget in October, domestic markets were in need of a remedy – some positive economic news. That much-needed dose was administered in the form of largely expected labour data. However, June's data did reveal a rise in the unemployment rate to its highest level since July 2021. Inflation, meanwhile, didn't raise the market's temperature, with investors remaining calm as consumer prices rose to 3.5% in April before easing slightly to 3.4% in May.

Domestic markets also took comfort from news in May that the UK and US had "made a good deal", according to Trump. As part of the agreement, the US scrapped 25% tariffs on British steel imports and reduced tariffs on domestically manufactured cars from 27.5% to 10% – bringing them in line with most other goods.



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No major surgery was required from the Bank of England (BoE) during the quarter, with just a single quarter-point cut in May – a largely expected move. The real surprise came from the vote itself, with the BoE's rate-setting committee narrowly approving the cut by a 5–4 margin.

"The past few weeks have shown how unpredictable the global economy can be. That's why we need to stick to a gradual and careful approach to further rate cuts," said Bank Governor Andrew Bailey at the accompanying press conference – a sentiment that captured the tone of the quarter and, for many, felt like just what the doctor ordered.

Investment strategies

There has been no shortage of market-moving developments in 2025, and the second quarter was no exception. Notable events included the initial negative reaction to US tariff policy on 'Liberation Day' across US bond and equity markets, to a surging oil price as a consequence of geopolitical events and the commitment of NATO allies to spend 5% of GDP on defence by 2035. Meanwhile, the broader economic backdrop was clouded by Moody's downgrade of the US credit rating. Adding to the uncertainty, President Trump's 'One Big Beautiful Bill Act' (OBBBA) faced a turbulent path through Congress, with projections suggesting it could add \$3.3 trillion to the US deficit over the next decade if enacted. So, what did this backdrop mean for asset classes?

From a fixed interest perspective, a constant push and pull of macro factors have influenced interest rate expectations, and this has been divergent depending on geography. In the US, the prospect of higher inflation – driven largely by higher tariffs – combined with interest rates remaining above expectations weighed heavily on US Treasuries for much of the quarter. Towards the end of the quarter, comments from Federal Reserve chair Jay Powell suggesting that a faster deterioration in the labour market or a weaker-than-expected inflationary impact from tariffs could create conditions for earlier and potentially deeper interest rate cuts provided some support for US Treasuries, ensuring they ended the period in the black. European and UK government bonds benefited from market perceptions that escalating tariff tensions could have a deflationary

impact in these regions, giving central banks greater scope to cut rates more aggressively. As a result, global government bond indices delivered robust performance during the quarter, rising by 1.5%. UK gilts delivered similar levels of returns, while the rally at the front end of the curve led to slightly stronger performance by short duration UK gilts. We hold an unhedged position in US Treasuries, and the weakness in the US dollar meant this detracted over the quarter.

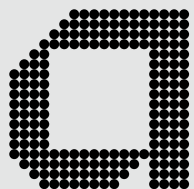
The rally in rates also supported short-dated and all-maturity investment grade credit, in the UK and globally. Funds with greater interest rate sensitivity, such as all-maturity credit strategies, benefited most from the decline in yields, while all credit strategies gained from a general tightening in spreads. Global high yield markets also performed strongly, driven by falling government bond yields and a notable tightening in credit spreads.

Turning to equities, returns in local currency terms were exceptional given the uncertain backdrop. Notably, the large-cap US equity market, which was down by more than 11% just eight days into the quarter, staged a remarkable recovery to end the period up by around 11%. Even more surprising, however, was that the US was not the strongest performer. That distinction went to Asia ex Japan with a gain of 12.6%, closely followed by emerging market equities at 12.2%.

Japanese equities rose 7.4%, while European ex UK and UK equities posted more modest gains of 3.6% and 4.4%, respectively – solid performances but comparatively pedestrian next to Asia's standout quarter.

However, these figures are in local currency terms and do not account for the impact of foreign exchange movements, which proved significant during the quarter and made a considerable difference to the returns sterling investors received. The most significant move was a sharp weakening of the US dollar, which fell more than 6.5% against sterling. As a result, the US equity market return for a UK-based investor was just 4.4%, compared to nearly 11% in local currency terms.





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Currency effects also dampened returns from Asia ex Japan and emerging markets, reducing them to 6.2% and 5.4% respectively in sterling terms. Conversely, the euro strengthened meaningfully against the pound, boosting European ex UK equity returns to 6.1% for UK investors.

Within alternatives, global infrastructure and global real estate investment trusts performed strongly in local currency terms. However, their large exposure to the US dollar meant they were down 1.6% and 1.4% in sterling terms, respectively. Reassuringly, absolute return funds provided diversification and positive returns during a volatile period.

Our basket of absolute return strategies performed well, with stellar returns from the standout TM Fulcrum Diversified Core Absolute Return Fund. The Vontobel TwentyFour Absolute Return Credit and BlackRock Absolute Return Bond Funds also outperformed cash.

Portfolio Activity

We made some changes to our European equity Fund selection towards the end of May, replacing the Invesco European Equity Income Fund and Barings Europe Select Trust with a new position in the M&G European ex-UK Fund, and adjusting the weights of other holdings to optimise the blend. M&G has recently launched a UK OIEC which replicates the mandate of an insured strategy that Richard Halle and his colleagues have run for a long time. The Fund is unapologetically value orientated and usually comprised of 50–60 holdings, with a maximum holding size set at +3% of the benchmark weight. The process is concentrated on identifying companies with financial strength, business durability and management teams with strong track records, which often tilts the Fund towards large cap stocks with high levels of liquidity. The Fund is priced incredibly competitively to raise assets. The large cap value orientation of this strategy means that it is well suited to be blended with the more growth and quality orientated strategies within this basket, run by BlackRock and Fidelity respectively. Its large cap nature also combines well with the Janus Henderson and Invesco specialist small-cap Funds to provide an

attractive, well-balanced basket that offers clients the opportunity to outperform the broader market.

We also switched our infrastructure exposure from the First Sentier Global Listed Infrastructure Fund to the Cohen & Steers Global Listed Infrastructure Fund. The Cohen & Steers team, led by Ben Morton, is one of the largest in the industry. It is incredibly well resourced and focuses on detailed regulatory nuances and political insights to create an advantage over the competition. The team's presence on the ground in various regions, not just in Australia, gives it an edge in understanding local regulatory and political environments. The team has demonstrated a long track record of delivering risk-adjusted returns above the FTSE 50/50 Global Infrastructure Index. The Cohen & Steers Global Listed Infrastructure Fund blends well with our broader basket of infrastructure holdings, which includes strategies run by Franklin Templeton, L&G and Aberdeen. It provides a similar exposure to that of the First Sentier Fund but at a considerably cheaper price.

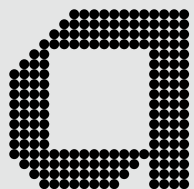
Outlook

With tariffs and trade tensions dominating the headlines from the outset, the ebb and flow of tariff threats has characterised the second quarter of 2025. We do not expect this to end anytime soon, with deadlines for many trade deals looming at the start of the third quarter.

While geopolitical tensions will likely continue to dominate the news, their real economic impact has, so far, been relatively limited. Labour markets and inflation indicators have shown signs of weakness, but certainly not in critical condition. As a result, we expect central banks to remain alert, closely monitoring the data and adjusting rates as needed.

One unintended consequence of Trump's tariff policy has been the emergence of more opportunities beyond the US. While America has remained a robust market, regions like Europe are now offering a welcome shot in the arm for global portfolios.





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Important Information

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Risks

All investments involve risk. The risks of some of the funds may be comparatively high. The risk descriptions at the end of this document correspond to the main risk factors for each fund within the model. "General Risks" mostly apply to all funds within the model. A fund could potentially be affected by risks beyond those listed described in this document, nor are these risk descriptions themselves intended as exhaustive. For full information and key risks, please refer to the end of this document.

Credit risk: The fund invests in securities which are subject to the risk that the issuer may default on interest or capital payments.

Interest rate risk: The fund price can go up or down daily for a variety of reasons including changes in interest rates, inflation expectations or the perceived credit quality of individual countries or securities.

Equity risk: The fund invests in equity and equity related securities. These are sensitive to variations in the stock markets which can be volatile and change substantially in short periods of time.

Emerging Markets risk: The fund invests in emerging market equities and / or bonds. Investing in emerging markets involves a greater risk of loss than investing in more developed markets due to, among other factors, greater political, tax, economic, foreign exchange, liquidity and regulatory risks.

Derivatives risk: The use of derivatives carries the risk of reduced liquidity, substantial loss and increased volatility in adverse market conditions, such as a failure amongst market participants. The use of derivatives may result in the fund being leveraged (where market exposure and thus the potential for loss by the fund exceeds the amount it has invested) and in these market conditions the effect of leverage will be to magnify losses.

High Yield Credit risk: The fund invests in high yielding bonds which carry a greater risk of default than those with lower yields.

For more information visit aberdeenadviser.com

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