

Sustainable Equity Theme Update

Q4 2025

In a Nutshell

A year of healthy returns with plenty of growth opportunities ahead

Summary

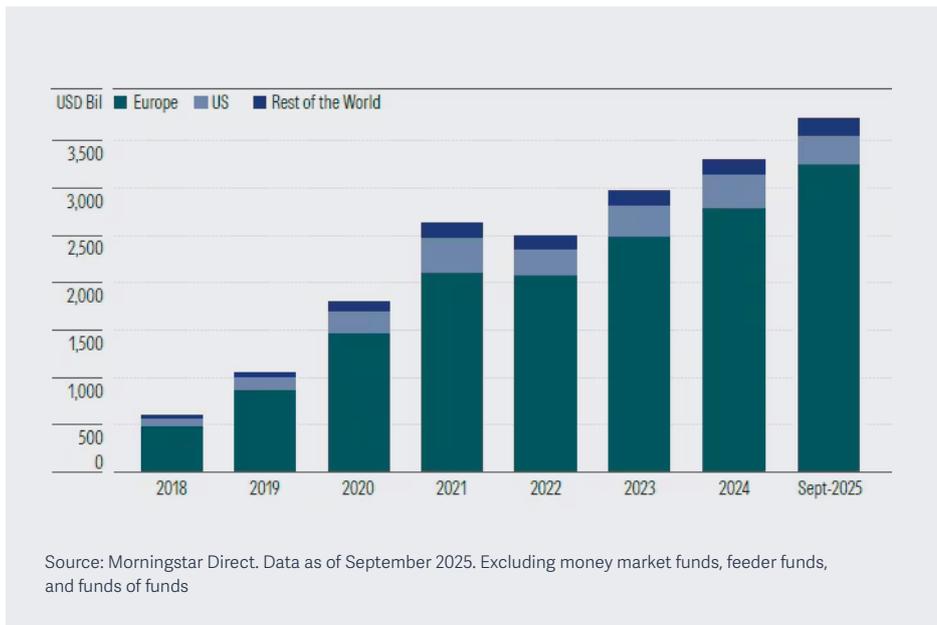
Our Sustainable theme returned +17% (in USD) in 2025, in line with the S&P 500 (+18%) but behind the FTSE All World (+23%). The theme added c.2% in the final quarter of the year.

As a result of ongoing political headwinds and regulatory uncertainty, a sector that once rightly traded at a 20% premium to the market is now closer to trading in-line with it, despite better operating metrics and higher growth opportunities from the underlying companies. This makes a compelling investment opportunity for long-term investors.

Developments

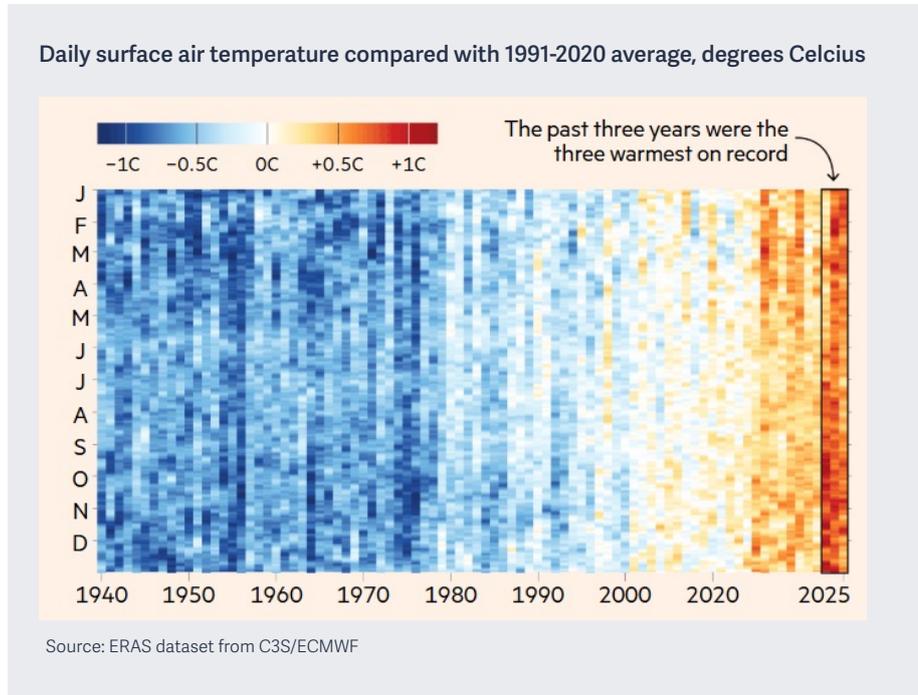
Political headwinds and regulatory setbacks have become a common feature of sustainable investing over the last few years. Holders have had to adopt a stance of quiet resolve and steely pragmatism, believing that underlying value along with a need to address fundamental issues will ultimately win out. Despite that background, returns from the theme in 2025 were more than satisfactory.

The mood in the US became particularly challenging in 2025 following Donald Trump's re-election. Relevant tax credits were slashed, proxy advisors were targeted for their consideration of ESG and DEI, whilst proposals to eliminate some of the foundational data for environmental reporting continued. Despite this, investor commitment to sustainable investing remained resilient, with assets remaining high and the theme near the top of investors' agendas.



Global assets in ESG Open-End funds and ETFs remain high (c.\$3.7 trillion in late 2025), dominated by Europe

If recent rates of warming continue, the targeted 1.5C limit will be breached more than a decade earlier than expected. “To all intents and purposes, the 1.5C limit is now dead in the water,” said Bill McGuire, professor of geophysical and climate hazards at University College London. “Whichever way you look at it, dangerous climate breakdown has arrived, but with little sign that the world is prepared, or even paying serious attention.” Something has to change.

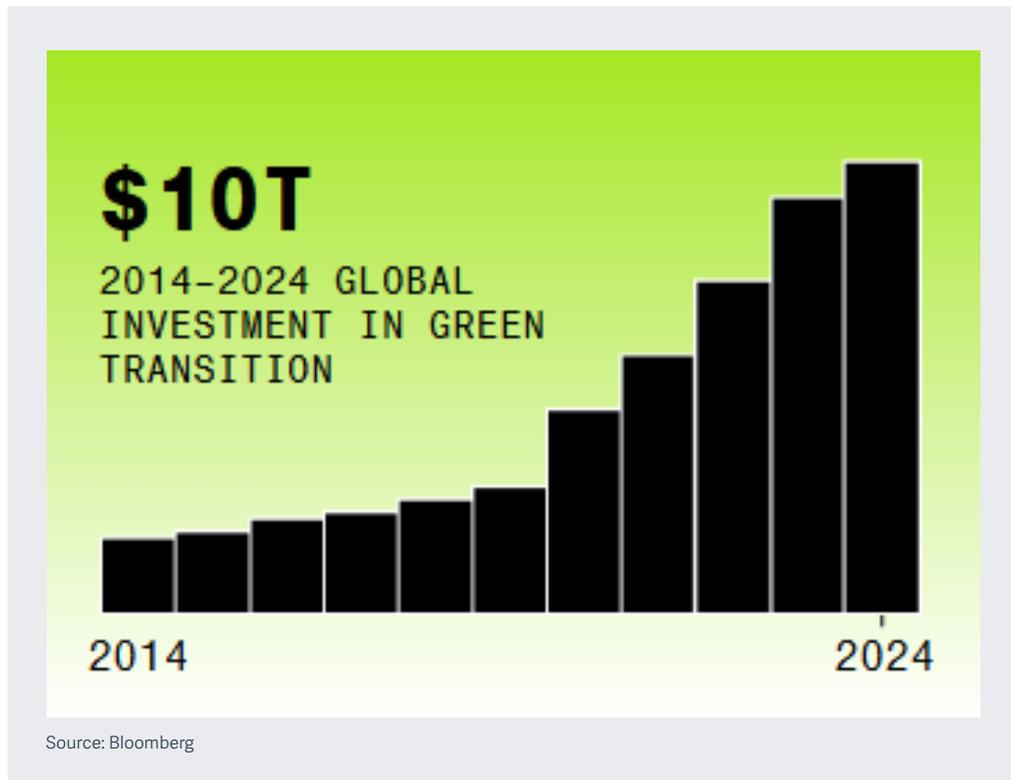


2025 has been confirmed as the third-warmest year on record, with a clear progression towards higher temperatures evident from the chart

There are several new drivers within the sustainable sector itself as the theme continues to evolve. For instance, there has been a major pivot towards segments offering “adaptation and resilience”, such as moving capital into companies that protect infrastructure from extreme weather (flood defences, resilient grid technology, and cooling systems). The “AI Supercycle” is also now a primary driver for renewables, with data centre demand projected to grow 160% by 2030, forcing big tech to underwrite massive new wind, solar, and even nuclear projects to meet carbon goals. 2026 is also being called the “Year of the Grid”, with investors targeting the “picks and shovels” of the transition- transformer manufacturers, cable makers, and smart-grid software - as the primary bottleneck for green energy. Growth opportunities abound.

Geographically, Developed Markets are seeing structurally rising power demand from data centres and industrial electrification, after decades of flat consumption. US electricity use, for instance, is expected to grow at the fastest rate in 50 years. Utilities, grid operators and efficiency specialists will all be key players, as access to power becomes a key bottleneck to AI datacentre delivery (source: *Ninety One*).

Emerging Markets are becoming engines of growth through the adoption of clean technologies, a decision now typically based on economic considerations alone, due to China’s leadership and scale in solar, wind, batteries and EV’s. The clean-tech market is expected to triple by 2035. Our active manager has thus leaned further into EM recently, with the conviction that the cost-driven phase will be faster and broader than markets assume.



Despite plenty of political hurdles, the flow of investment into green tech continues unabated, providing many growth opportunities

Performance & Valuation

Whilst the near-term outlook is best described as “cautiously optimistic”, policy headwinds may begin to fade at the same time as underlying fundamentals continue to strengthen. Beneath all the challenges (policy, regulatory, interest rates) earnings have remained surprisingly resilient for many companies. This means valuations have compressed whilst margins and returns on equity have held up, which provides for a compelling entry point.

Selective themes like renewables and adaptation are expected to shine. Active management should thrive in identifying the likely winners in sub-sectors such as transition and resilience plays from within a broad opportunity set.

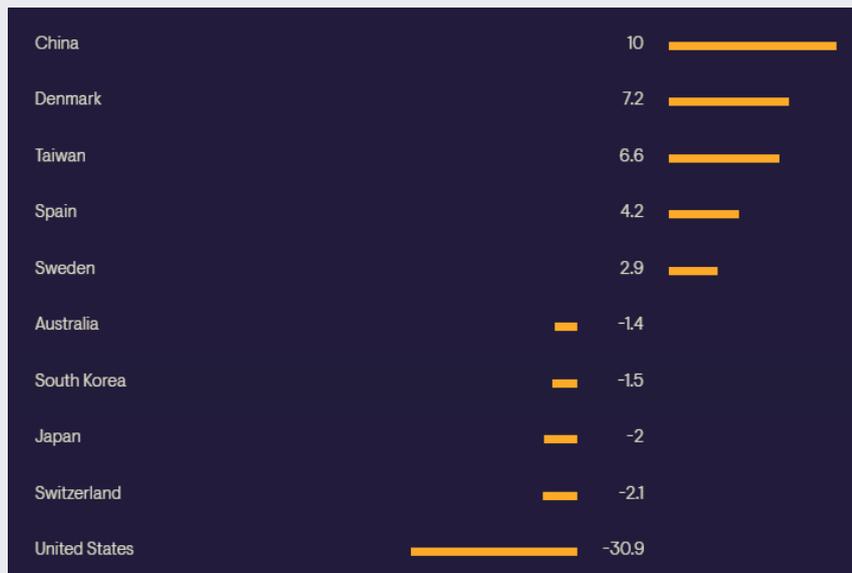
Outlook

2026 could mark sustainable investing's transition to a resilient, execution-focused era. Driven by unavoidable climate realities, technological demands, and economic pragmatism, the sector offers compelling opportunities for risk-adjusted returns and real-world impact. The political environment may remain challenging, but beneath the headlines are sectors and companies that continue to grow at attractive rates yet trade on market multiples because of the noise.

Positioning

As always, it is important to narrow down the broad sustainable universe and capture that part of the theme most likely to deliver against our investment expectations. That is a role for an active specialist, so we continue to implement the theme via the Ninety One Global Environment fund. As well as appealing valuations, it should prove more resilient in any prolonged downturn, having much less exposure to the US market than its benchmark (32% vs 64%), much greater UK and European exposure (31% vs 15%) and a greater allocation to China (13% vs 3%), a leader in the underlying technologies and their application.

Top & Bottom Region Weightings vs MSCI AC World Index



Source: Ninetyone

Our active sustainable theme gives the portfolio greater exposure to non-US areas (relative weightings vs the index)

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