

# Sustainable Growth Mandate Update

Q1 2026

## In a Nutshell

The Sustainable Growth mandate fell by around 2.9% during Q1, whilst the FTSE All World index fell 1.2% in GBP (3% in USD) and the MSCI ACWI Sustainable Development index added 0.4% (in GBP). Performance was a mixed bag overall but we continue to expect positive surprises to emerge in the longer term.

### Summary

After a strong 2025, during which the mandate gained over 12% (and over 14% for the 12 months to the end of March 2026), the first quarter of 2026 was more challenging, as it was for risk markets in general. We entered the year with valuations somewhat elevated and expectations for earnings delivery set high. Once the conflict in Iran burst into the open towards the end of February, energy prices soared and the risks to global economic growth compounded, with the result that any remaining new year optimism gave way to broad market weakness.

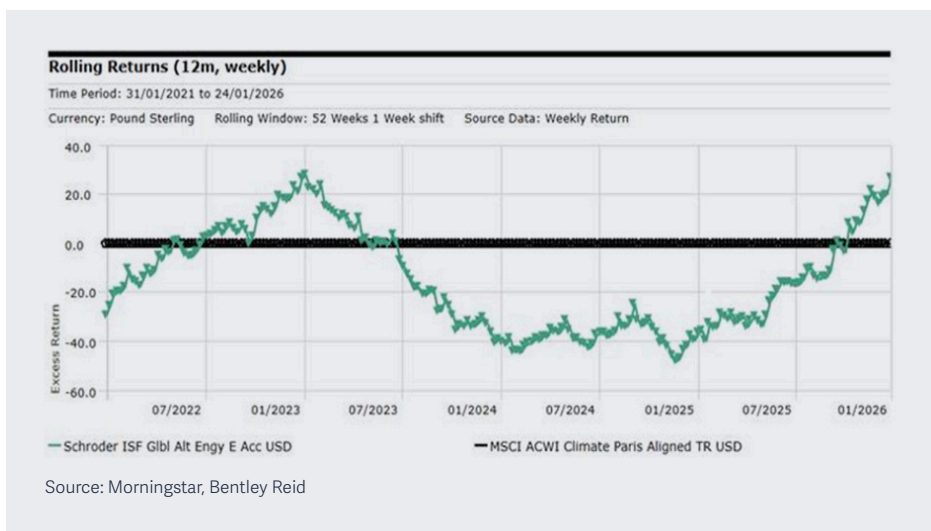
Despite the intra-quarter volatility and geopolitical uncertainty, markets have actually remained remarkably sanguine overall and as of mid-April are approaching new highs, with the mandate now in positive territory YTD (+3%). More importantly, in the longer term we continue to believe that the outlook for the Sustainable Growth mandate is, if anything, brighter than it has been for some time. The broad range of underlying industries continues to evolve and from a top-down view there appear to be some very interesting growth opportunities trading on relatively attractive valuations.

### Review of / Activity During the Quarter:

Performance this quarter was mixed, with several holdings that put in a strong performance offset by others that were weak.

On the positive side, KBI Global Sustainable Infrastructure Fund rose 7.6% as a result of its style and market cap focus – defensive stocks (such as utilities) outperformed cyclicals, whilst small caps and value also outperformed large cap and growth stocks. We top sliced the holding after a strong run, using the proceeds to add to Fundsmith Stewardship Fund and Baillie Gifford Positive Change. Pictet Global Environmental Opportunities Fund was flat over the period, outperforming major indices such as the FTSE All World (-1.2%) and S&P 500 (-2.4%).

After a period of material outperformance (+36% over 12 months to 28.1.26), as shown in the chart below, we sold the Schroder Alternative Energy fund.



We sold Schroder Alternative Energy following a strong period of outperformance

We put the proceeds into the T. Rowe Price (TRP) US Impact fund which holds circa 50 stocks, has a US bias and is an Article 9 fund, the highest ESG rating. We gained access to the Founder fee share class paying a 0.195% pa management fee and the investment leans into the recent underperformance of US ESG names.

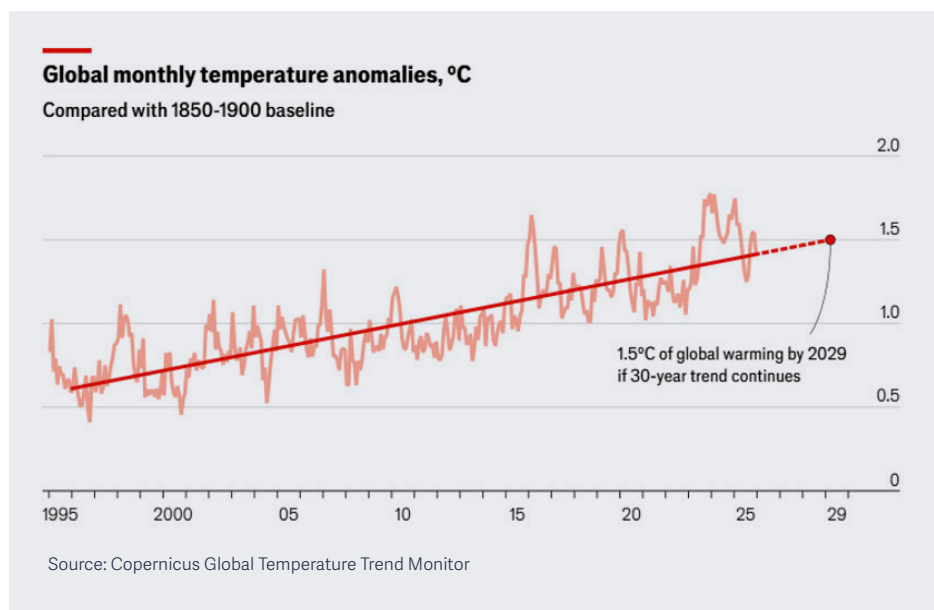
Sustainability Snapshot					
	Morningstar ESG Risk Rating for Funds	Corporate ESG Risk Rating - Percent of Eligible Portfolio Covered	Portfolio Corporate ESG Risk Score	Portfolio Carbon Risk Score	Weighted Average Carbon Intensity Scope 1 and 2 in USD Terms
Franklin S&P 500 Paris Aligned Clmt ETF	*****	99.95	16.66	3.57	35.08
iShares MSCI Wild HlthCrSect AdvdETFSAcc	*****	100.00	16.78	1.92	11.33
Baillie Gifford Positive Change B Acc	***	99.48	18.37	4.32	43.97
Fundsmith Stewardship Fund I Acc	*****	100.00	16.03	3.12	33.05
K&I GIB Sust Infrns A GBP Acc	*****	100.00	19.59	7.25	373.69
Ninety One Global Environment K	***	100.00	18.92	7.06	207.82
Pictet - Global Envir Opps I USD	*****	99.63	16.03	4.92	119.03
Polar Capital Biotech I Inc	■	89.81	28.41	1.77	37.17
Schroder ISF GIBl Alt Endy E Acc USD	*****	98.85	18.34	6.43	87.70
T. Rowe Price US Impact Equity I GBP 9	*****	100.00	16.52	3.64	40.84

The TRP fund has a 5\* ESG Risk Rating and a low ESG Risk Score (the lower the better)

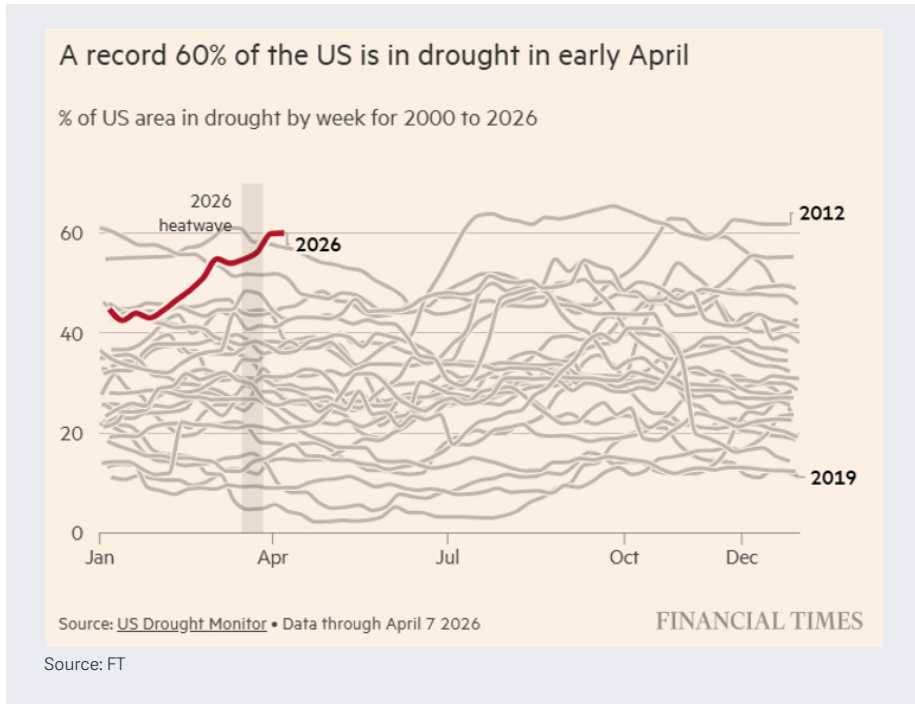
On the downside, the passive allocation to the Franklin S&P 500 Paris Aligned ETF disappointed (-7.8%), partly a result of US large cap ESG underperformance. Fundsmith Stewardship Fund also had a poor Q1 (-9.5%), especially in March, due to relatively high individual stock concentration and a lower-than-market exposure to those sectors that held up relatively well during a broad market sell-off (banks, energy and commodities). Baillie Gifford also fell 7% as old economy stocks fared better than the fund's high-growth, innovation-led environmental holdings, no surprise during a risk-off period. Finally, Gresham Battery Storage Trust fell 7% but we retain our optimism toward the stock, which trades at a significant discount to NAV and where peer bids in a consolidating sector imply 50% or more upside from today's price.

**Sustainability Outlook**

The long-term outlook for Sustainable funds remains positive, although as expressed previously we have clearly moved from the hype phase to the operational "show-me" period. Very little has improved regarding the outlook for climate change and global warming, meaning more needs to be done in less time and more money needs to be spent.



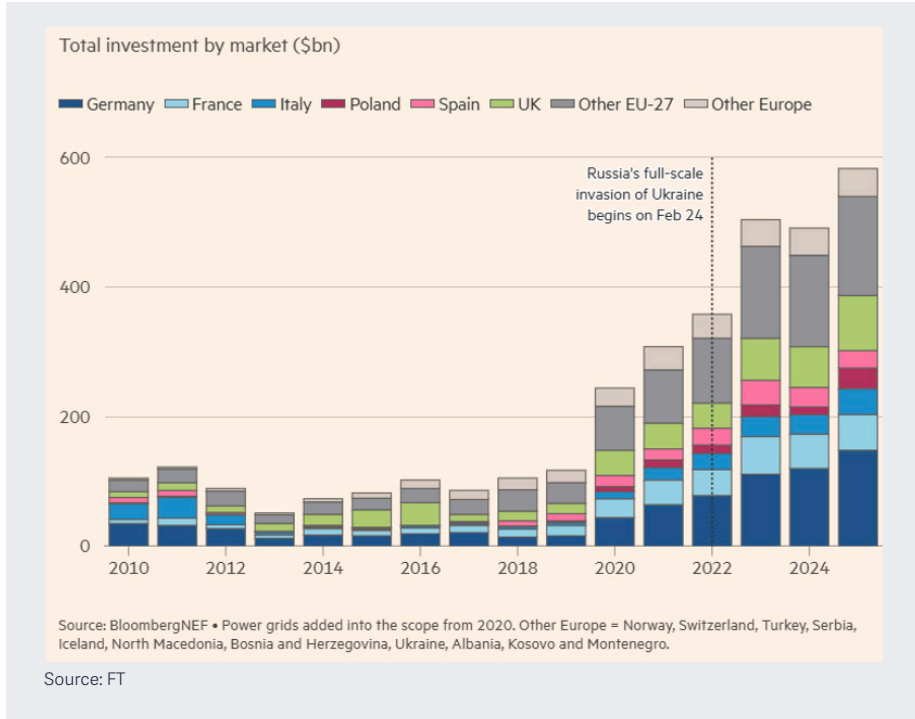
If warming trends continue, the 1.5C milestone will be passed sooner than expected, perhaps by 2029



More than half the US is in drought after near-record March temperatures

Indeed, fallout from the Iran conflict may prompt more families, businesses and governments to explore and speed up their use of alternative sources of energy, for example via solar panels. Not only are they cheaper, they are also far less at the mercy of international events. The story is thus no longer just about climate change but is also about achieving energy security by ensuring plentiful supply.

In the near term, some countries in Asia and Europe have turned more towards coal to power their economies, but in the longer term the war should accelerate the shift towards cleaner, greener technologies as governments seek to reduce reliance on fossil fuels imported from volatile regions. A similar thing happened when Russia invaded the Ukraine, when countries including Germany were forced to rely on coal as Russia reduced the supply of gas. Renewables deployment eventually accelerated faster than coal, with renewable installed capacity now about 50% higher than it was at the end of 2022. With national energy independence now looking more vital than ever, renewables are less susceptible to energy shocks and are thus regarded as one of the principal long-term solutions.



Europe's energy transition investments have risen sharply since Russia's full-scale invasion of Ukraine

Elsewhere, US electricity demand has grown in the last two years for the first time in decades. US electric grid operators are struggling to keep up with end demand growth and thus are increasing their capital expenditure plans. AI's rapid expansion and increasing electrification (e.g. cars) are placing unprecedented strain on global electricity systems, causing bottlenecks in areas such as cable and storage. Baille Gifford is an example of a fund that invests in businesses that are positioned at these essential junctures. Technology advancements in battery storage reduces cost and improves performance, making "renewable plus storage" a more viable strategy. Indeed, AI can arguably be described as an electricity story disguised as a software story - power is part of the "picks and shovels" way to participate in the AI boom since whatever form of AI wins, it will need reliable power, delivered continuously, at scale.

Elsewhere, wind and solar generation remain attractive despite the rollback of many subsidies in America's "One Big Beautiful Bill", having achieved cost parity with fossil fuels in much of the US. Long-term assets in infrastructure sectors such as water, clean energy and waste all have their own long-term drivers of demand, whilst digital infrastructure requires fast, reliable connectivity via cell towers and co-location data centres.

As Deirdre Cooper, Head of Sustainable Equity at Ninety One said, "sentiment may have faltered over the past few years, but earnings have not. High-quality enablers of decarbonisation have continued to deliver strong, above-market earnings growth, even as valuations compressed amid policy uncertainty and higher interest rates." This disconnect has created a compelling entry point for investors.

### **Positioning**

We continue to spread our Sustainable Growth investments across a variety of passive investments, core generalist funds and more specialist thematic subsectors. We believe this is the optimal way to balance the need for diversity across a very broad industry, whilst maintaining sufficient size in key areas poised to generate significant returns for investors in the years ahead.

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