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Sustainable Growth Mandate Update

Q3 2026

In a Nutshell

A pause for breath after Q2's c.14% rally, as a renewed oil shock and rising bond yields favoured a narrow group of US tech giants and the energy sector, two areas sustainable strategies typically underweight

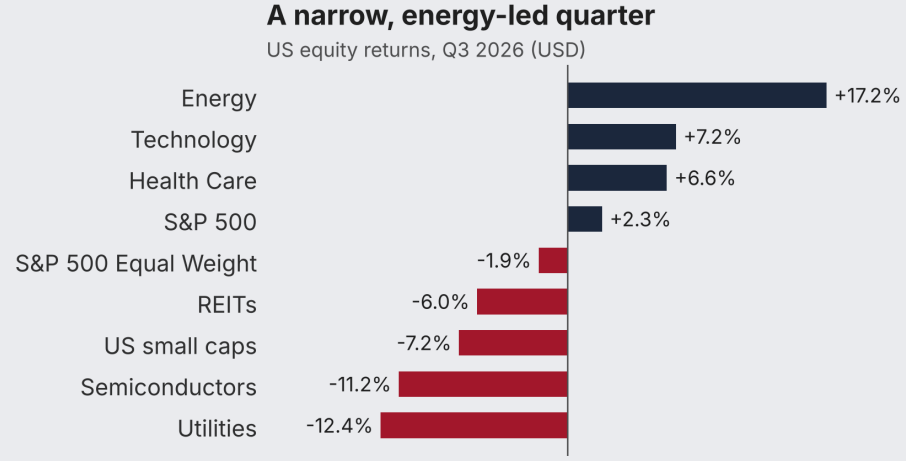
Summary

The mandate declined by approximately 1% during Q3, with around half of the portfolio's holdings rising in value and the other half falling. After a strong Q2 (+14%), this quarter it was the turn of a handful of US mega-caps to shoot their way to the front, rising alongside an energy sector buoyed by a 40% surge in the oil price. Both are pockets of the market that sustainable investing is typically underweight, explaining the 2% decline in the MSCI ACWI Sustainable Development Index over the same period.

The mandate is up 10% for the year to date and 14% over the last 12 months (individual portfolio returns may vary slightly depending on trade timing and execution fees).

Market Review

Global equity markets delivered mixed but largely positive returns over the third quarter of 2026. The collapse of the US-Iran ceasefire in early July sent Brent crude more than 40% higher over the quarter, peaking close to $110 a barrel in September. Early momentum, fuelled by continuous corporate expenditure on artificial intelligence and data centre infrastructure, met resistance in late August and September as sticky inflation data and rising sovereign bond yields re-ignited stagflation concerns, prompting the Federal Reserve, European Central Bank and Bank of Japan to raise interest rates. While the S&P 500 managed a modest gain (+2.2%), it was driven by a handful of mega-caps, with the average US stock falling 2% and smaller companies more than 7%. European and emerging market indices lagged, impacted by elevated regional energy costs and geopolitical instability across the Middle East and Eastern Europe.

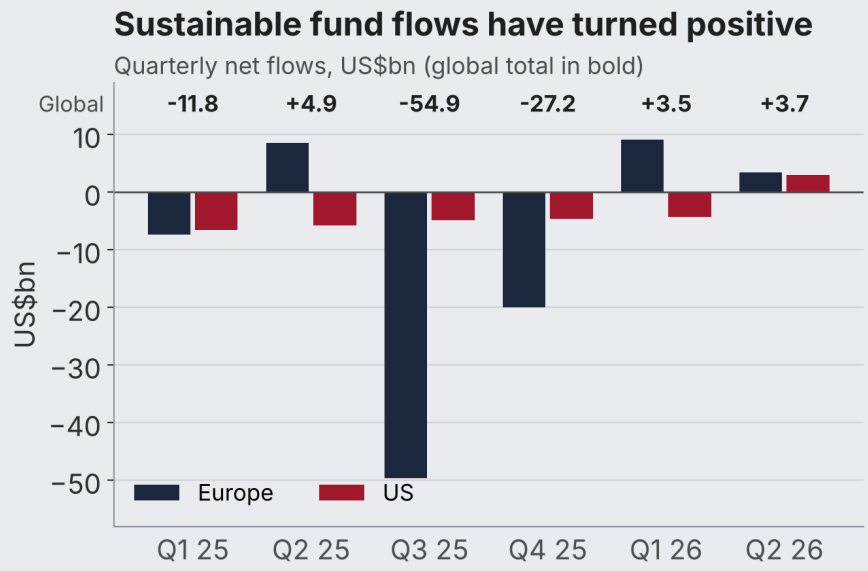


Source: Novel Investor, Endowus

Energy led as oil surged, while rate-sensitive utilities and real estate lagged. Gains were concentrated in a handful of mega-caps

Within the sustainable arena, performance diverged significantly depending on sub-sector, style and duration exposure. Demand for electrical grid equipment, power management components, and energy efficiency hardware continued to accelerate. Hyperscale data centre operators increasingly turned to long-term clean power purchase agreements (PPAs), nuclear restarts, and utility-scale battery backstops to ensure uninterrupted power supply.

Sustainable fund flows returned to positive territory in Q2 (Q3 data not available at time of writing), led by Europe, while US sustainable funds recorded their first quarter of net inflows in almost four years in Q2. This came despite the EU scaling back its corporate sustainability reporting rules earlier this year, perhaps a welcome sign that investor demand is now driven more by fundamentals than by regulation.



Source: Morningstar

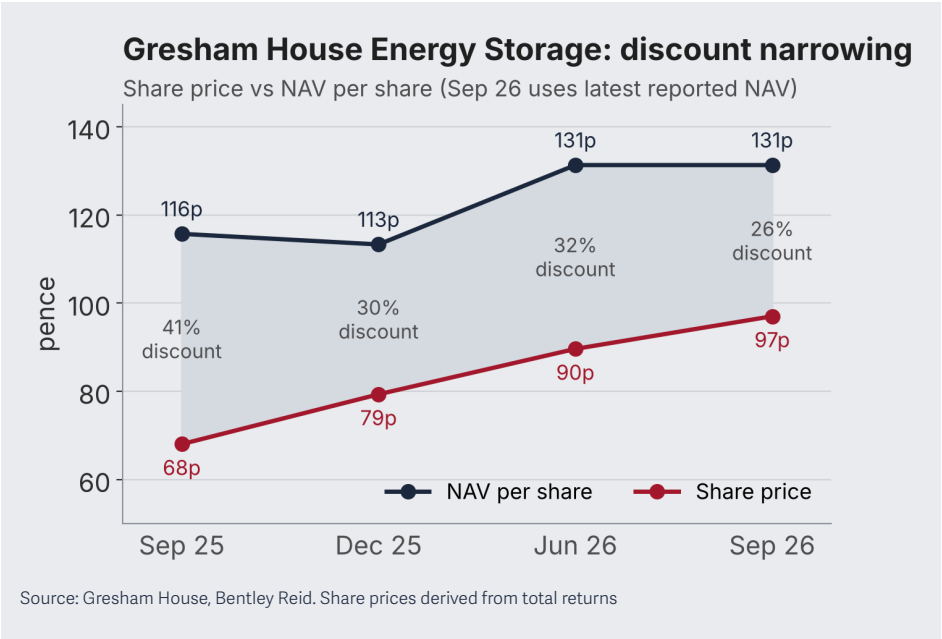
Europe has led the recovery in YTD sustainable fund flows, and US funds recorded their first quarterly inflow in almost four years in Q2. We await Q3 data

Capital-intensive and rate-sensitive sectors, however, underperformed broad equity indices. Clean energy project developers, offshore wind contractors, and traditional utilities experienced valuation compression as elevated capital costs raised hurdle rates for new installations. Utilities, industrials and real estate were weak over the quarter, contrasting sharply with the relative strength of capital-light technology mega-caps.

The main equity markets remain concentrated. The top tech giants represent an unprecedented proportion of global benchmark indices, leaving traditional passive investors vulnerable to sector-specific drawdowns or valuation multiple contractions. In contrast, sustainable strategies offer exposure to real-economy capital investments such as industrial automation, clean electrification, efficient building systems, and resource management that trade at valuation discounts relative to their historical averages.

Performance & Activity

The continued recovery of the Gresham House Energy Storage Fund provided a welcome tailwind to the mandate. Activist shareholders holding an 8% stake, led by PrimeStone Capital, are pushing for a sale, arguing that intrinsic value could exceed 140p per share. The Board rejected that call in September, citing the progress of its recovery strategy but with the discount still wide the pressure may continue. The share price rose 9% over the quarter (+23% YTD) to close at 97p, still trading at a notable discount to its recently reported NAV of 131p (which has risen 18p this year). We maintain our 6% allocation.

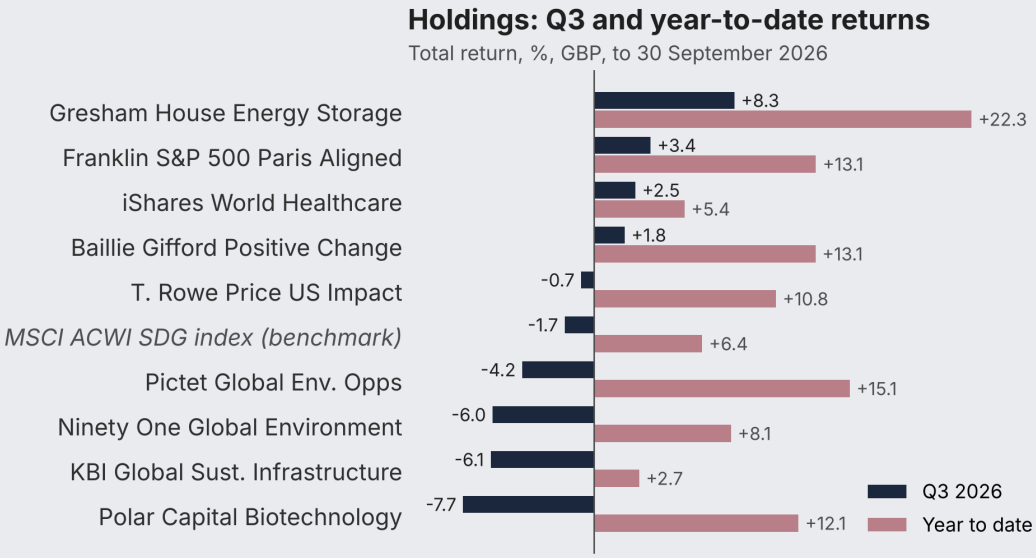


Source: Gresham House, Bentley Reid. Share prices derived from total returns

NAV growth and activist pressure have closed a large part of the discount, but it remains wide

The Franklin S&P 500 Paris Aligned ETF was another standout contributor, gaining 3.4% in Q3 to bring YTD returns to 13% and providing the mandate with meaningful exposure to mega-cap technology leaders. Baillie Gifford Positive Change also outperformed the benchmark (+2%), holding up well despite a sharp sell-off in semiconductors, while the Healthcare ETF added 2.5% as market participants sought defensive value and diversification outside pure-play AI. T. Rowe Price US Impact was broadly flat (-0.7%).

Conversely, performance was dragged down by Pictet (-4%) and Ninety One (-6%), as their industrial and mid-cap holdings lagged a mega-cap-led market, though both maintain their outperformance against the sustainable index year-to-date. Polar Capital Biotech retreated 8%; having met the management team, we view this as a healthy consolidation after an extraordinary rally (+60% since our initial entry in March 2025). KBI Sustainable Infrastructure dropped 6%, as rising sovereign yields (with the 10-year US Treasury yield surging 80 bps to 5.3%) weighed on the income appeal of its underlying holdings.



Source: Bentley Reid

Rate-sensitive holdings lagged in Q3, but most remain comfortably positive year to date

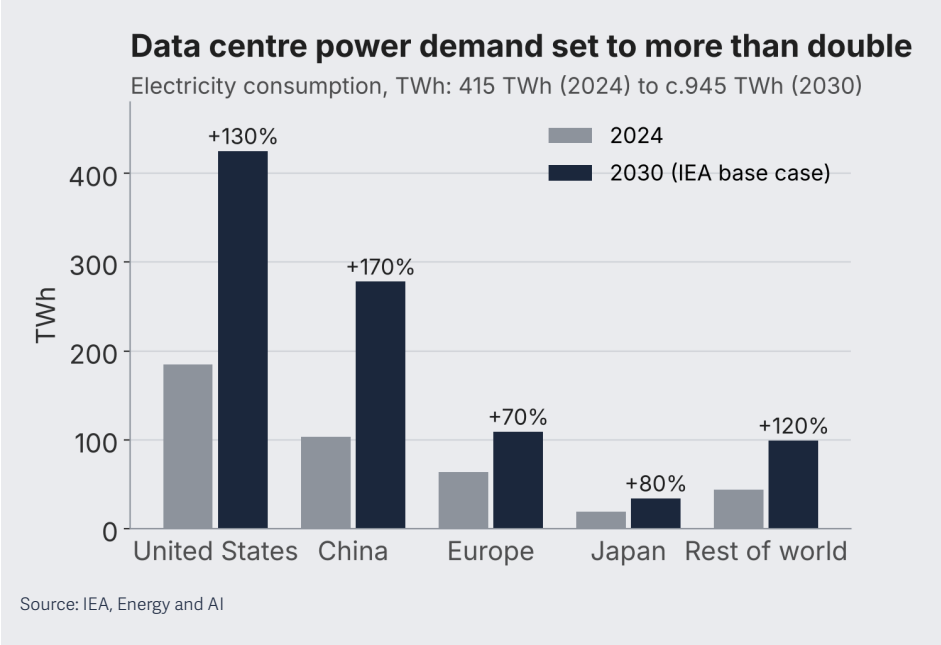
As flagged in our last update, following prolonged underperformance, Terry Smith announced structural shifts to his management approach. Because significant "style drift" represents a sell trigger within our process, we exited the position in mid-July. We have redeployed this capital into the iShares MSCI World Quality Factor ETF.

Outlook

As we move into the final quarter of 2026, the driving force of sustainable investing is continuing to shift from regulatory pull to structural push, led by the intersection of skyrocketing electricity demand, grid capacity constraints and, as Q3's oil shock underlined, the need for energy security.

Estimates indicate that US and European power demand, which remained largely flat for nearly two decades, is entering a multi-year acceleration driven by three primary forces:

- **AI & Data Centre Electrification:** Data centre power consumption globally is projected to more than double by 2030, consuming a growing fraction of national grid capacities.
- **Industrial Reshoring & Autonomy:** Western nations are actively rebuilding domestic manufacturing bases for semiconductors, pharmaceuticals, and critical minerals to reduce dependence on concentrated supply chains (such as China's dominance in rare earth elements and heavy refining).
- **Transport & Heating Electrification:** The ongoing electrification of vehicle fleets and adoption of heat pumps in homes and industry continues to compound baseline power requirements.



Source: IEA, Energy and AI

The US and China account for nearly 80% of the projected growth in data centre electricity demand

Consequently, "energy transition" is no longer purely about substituting fossil fuels for environmental reasons; it is about sourcing gigawatts of power wherever and however they can be delivered reliably and affordably. Renewables paired with grid-scale storage and smart distribution networks represent the quickest, most cost-effective path to meet this capacity deficit.

While wider equity markets face concentration risk and demanding forward expectations in certain sectors, sustainable portfolios trade at attractive valuation entry points. The path of bond yields will remain a key swing factor for the more rate-sensitive holdings in the near term, but any stabilisation from today's multi-decade highs should provide a meaningful tailwind.

Positioning

We maintain a disciplined multi-pillar approach, one designed to participate in structural upside while mitigating sector-specific volatility using a blend of passive, core generalist and more specialist thematic funds.

This balanced approach enables the Sustainable Growth Mandate to navigate short-term macroeconomic noise while remaining fully invested in the essential physical building blocks of the future economy.

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