QUILTER CHEVIOT

Sustainable Opportunities Funds

Managed by Quilter Cheviot Limited

Annual Sustainable Investment Report 2025

1st January 2025 to 31st December 2025

Sustainability Focus

SPECIALISTS IN INVESTMENT MANAGEMENT

Contents

The Sustainable Opportunities Balanced Fund and Sustainable Opportunities Growth Fund may be collectively referred to as the “Sustainable Opportunities Funds” or “the Funds”. The Sustainable Opportunities Balanced Fund and Sustainable Opportunities Growth Fund are sub-funds of the TM Quilter Cheviot Portfolio (FCA Registered Fund Number 504474). Thesis Unit Trust Management Limited (“Tutman”) is the Authorised Corporate Director of the Funds.

Each company’s revenue alignment with the SDGs is independently determined by Ethical Screening (a third-party data provider) in accordance with its proprietary methodology. The data includes a combination of figures i) disclosed by companies publicly or directly to Ethical Screening, ii) calculated from company reports, and iii) estimated by Ethical Screening from other available information.

Foreword

Claudia Quiroz

Head of Sustainable Investment

Claudia is the Lead Fund Manager of our sustainable fund range, the award-winning Sustainable Opportunities Balanced Fund, Sustainable Opportunities Growth Fund and the Quilter Investors Ethical Equity Fund. She also manages segregated portfolios on behalf of private clients, pensions and charities with a focus on sustainable investment. Claudia holds an MBA from Bayes Business School in London and joined Quilter Cheviot from Janus Henderson Investors in 2009. She has over 20 years' experience in Sustainable, Ethical & Responsible Investment and is a Chartered Member of the Chartered Institute for Securities & Investment.

I am delighted to introduce our 2025 Sustainable Investment Report, sharing our investment philosophy, reflecting on the past year, and exploring the exciting opportunities ahead.

Markets in 2025 were anything but straightforward. While the year began on a strong footing, investors soon navigated a series of sharp swings, from volatile US tariff moves that triggered the 'Liberation Day' sell off, to renewed concerns around a potential artificial intelligence ("AI") bubble towards year end. Yet, despite this turbulence, global markets delivered a third consecutive year of double digit gains, with the MSCI All Country World Index returning 14.4%, driven by information technology, financials, and industrials. Against this backdrop, our Funds delivered strong returns, underpinned by our disciplined, repeatable, and robust investment process.

2025 marked an important milestone for the Funds with the adoption of the FCA's 'Sustainability Focus' label, reflecting the credibility of our sustainable investment approach. We continue to assess companies' contributions to the UN SDGs and identify those providing solutions aligned with our five positive investment themes. We also took the opportunity to rename the Funds from 'Climate Assets' to 'Sustainable Opportunities'. Terminology around sustainability has evolved since we first launched the strategy in 2010. Although climate change remains central to sustainable investment, we favoured a name that reflects the breadth of opportunities in which we invest, including both environmentally focused companies and those delivering socially aligned solutions, such as those within our Health & Well Being theme.

Our framework for active ownership, and the integration of Environmental, Social and Governance (ESG) factors and ESG screening into the investment process, remain cornerstones of our philosophy. We are proud of our commitment to being a 'responsible investor'. For further information on our responsible investment principles, please refer to our **website**.

During the year, we received many interesting questions from our clients and advisers, and I thought it would be helpful to share some of them here:

Question: What themes guide your investment decisions, and which of them is particularly compelling today?

Answer: Our investment approach is anchored in five long-term sustainability themes: Clean Energy, Food, Health & Well-Being, Resource Efficiency, and Water. These themes capture the major structural trends shaping global societies, from the energy transition and digitalisation to food security, ageing populations, and water resilience.

Among our investment themes, Health & Well-Being stands out to me. It focuses on improving lives by providing quality healthcare, health education, and financial inclusion. The world is ageing rapidly. For example, by 2050, one in six people will be over 65, which drives growing demand for medical technology and preventive care. Many of our holdings, such as Medtronic, Thermo Fisher, and Waters, lead in diagnostics, chronic disease solutions, and vaccine innovation.

Financial inclusion is also an important part of the Health & Well-Being theme. It recognises that access to affordable financial services, such as insurance, housing, and credit, is essential for resilience and well-being. Motability Operations, as an example, provides affordable finance for disabled individuals to acquire mobility solutions, promoting independence and reducing inequalities.

Question: How did the Funds perform in 2025, and what is your outlook for sustainable investing?

Answer: Higher interest rates and negative sentiment toward parts of the renewable energy sector created headwinds. However, our diversified thematic exposure and focus on high quality companies provided resilience during a volatile period and the Funds ended the year with strong absolute returns (10.3% and 7.9% for Balanced and Growth respectively).

Looking ahead, the outlook for sustainable investing remains positive and regulatory developments, such as Sustainability Disclosure Requirements (SDR), strengthen trust and transparency. It is worth noting that the conversation around the energy transition continues to evolve. While climate change remains critical, the focus is shifting towards energy efficiency and the integration of AI across industries to drive productivity gains. We aim to identify opportunities in a world where digitalisation and decarbonisation go hand in hand. As we move into 2026, sustainable investment themes such as Clean Energy and Resource Efficiency remain structural long-term winners. For example, global investment in renewables is accelerating: the International Energy Agency estimates that clean energy investment in 2025 was double that of fossil fuels, totalling approximately $2.2 trillion. This trend reinforces the energy transition and energy efficiency narrative, even amid political headwinds such as anti-renewables rhetoric in the US.

Question: What sets the Sustainable Opportunities Funds apart from others in the market?

Answer: We have designed a multi-layered, repeatable, and transparent investment process, underpinned by ESG integration with a thematic approach around sustainability. Importantly, we actively seek companies delivering solutions to sustainability challenges whilst excluding harmful sectors of the economy. This disciplined process, together with our long track record and strong voting and engagement practices across all holdings, are key differentiators.

Question: Why does sustainability matter now more than ever?

Answer: Recent surveys* show that over 80% of institutional investors plan to increase allocations to sustainable strategies, driven by long term financial performance and the need to manage climate risk, resource scarcity, and social inequality.

Demographics matter too. The Great Wealth Transfer will see trillions moving to Millennials and Gen Z, who overwhelmingly prioritise sustainability and ESG considerations. Their expectations are reshaping capital markets and influencing corporate behaviour.

We are also seeing a rotation away from concentrated positions in the Magnificent Seven. Industrials, utilities, and infrastructure sectors are emerging as key beneficiaries of digital transformation and AI adoption, providing diversification beyond the technology giants. However, while AI accelerates innovation and operational efficiency, it also raises concerns about energy consumption, as data centres and semiconductor manufacturing are energy-intensive businesses. This creates opportunities for companies within our environmental themes to lead in delivering energy-efficient solutions across industries through innovation and practical AI adoption technologies.

By sharing these questions, I hope you have a better understanding of the opportunities ahead by investing in the Sustainable Opportunities Funds.

Finally, I would like to thank our clients and advisers for your continued support. My team and I are always happy to meet should you wish to find out more about our philosophy and approach.

*https://www.morganstanley.com/insights/articles/institutional-investor-sustainability-signals-report-2025

Sustainable Investment Team

Claudia Quiroz
Head of Sustainable Investment

Harry Gibbon
Fund Manager

Caroline Langley
Deputy Fund Manager

Toby Rowe
Sustainable Investment Specialist

Patrick Main
Investment Adviser

Drew Beckley
Trainee Investment Manager

Angus Findlay-Wilson
Investment Administrator

Eleni Makri
Sustainable Investment Associate

Responsible Investment Team

Gemma Woodward
Head of Responsible Investment

Greg Kearney
Senior Responsible Investment Analyst

Nicholas Omale
Responsible Investment Analyst

Margaret Schmitt
Responsible Investment Analyst

Yumna Yusuf
Responsible Investment Analyst

Adeola Egunnike
Proxy Voting Analyst

Research Team

Amisha Chohan
Head of Equity Research

Chris Beckett
Consumer Staples Analyst

Ben Barringer
Head of Technology Research and Investment Strategist

Maurizio Carulli
Energy and Materials Analyst

Jarek Pominkiewicz
Industrials Analyst

Mamta Valechha
Consumer Analyst

Oli Creasey
Property Analyst

Sheena Berry
Healthcare Analyst

Matt Dorset
Equities Analyst

Will Howlett
Financials Analyst

Matt Ennion
Alternatives Analyst and Head of Fund Research

These members of the Research team directly support the Sustainable Opportunities Strategy. The team also includes an additional nine members.

Investment Process

As part of our sustainable investment offering, there are two Sustainable Opportunities Funds, the Sustainable Opportunities Balanced Fund and the Sustainable Opportunities Growth Fund. Both follow the same investment process.

The aim of the Funds is to provide capital growth and income, net of fees, over the longer term (rolling 5 year periods) and to support the development of sustainable societies by pursuing five environmental and social themes.

Clean Energy - Companies whose products, solutions, or services reduce the use of hydrocarbon-based fossil fuels, including those involved in renewable energy generation, the EV value chain, products and technologies for sustainable building design and construction, energy efficiency.

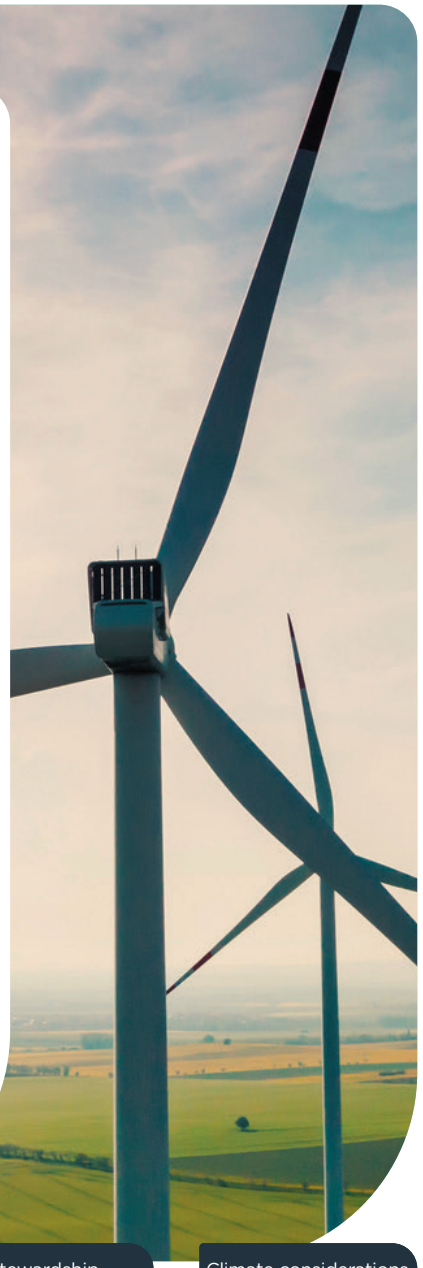
Food - Companies whose products, solutions or services address the imbalance in the supply of and demand for high quality nutrition such as those involved in organic grain production and harvesting, food testing for pathogens or allergens, food processing techniques that maintain nutritional value, low-waste food packaging solutions, and high-tech agriculture supplies.

Water - Companies whose products, solutions or services improve the imbalance in the supply of and demand for water and water systems such as those involved in water supply and distribution, recycling, water analysis, monitoring and purification, water metering, leak prevention and detection, and efficient methods of crop irrigation.

Health & Well-Being – Companies whose products, solutions, or services improve ineffective healthcare, protection and support systems such as companies involved in medical supplies and devices, vaccines and products for infectious disease, medical analysis and testing, hospitals, healthcare facilities, social and supported housing, supporting financial inclusion, and high-quality education.

Resource Efficiency - Companies whose products, solutions, or services reduce the depletion and inefficient use of the earth's resources and/or help to expand the circular economy. This may also include waste-to-energy, recycling, sustainable transport, cyber-security and technology solutions for facilitating the digital economy, energy-efficient electrification and productivity, and efficiency innovations.

To learn more about our investment themes, turn to **page 24**.



Positive Criteria

At all times the Funds must hold a minimum of 70% in sustainable assets.

Companies

We monitor the proportion of revenue generating activity within each company which is aligned with one or more of the UN SDGs. At least 50% of the revenue generating activity of a company must be aligned with one or more of the SDGs in order for it to be considered sustainable.

Sovereign Debt

The Funds may also allocate capital to sovereign debt instruments. An instrument is considered sustainable when the issuing country has an SDG Index score of 80 or higher and achieves a "green" rating across all five of our investment-theme core indicators, based on the most recent Sustainable Development Solutions Network (SDSN) Sustainable Development Report. Further information on the report can be found **here**.

Negative Criteria

The positive investment approach is coupled with careful screening of companies that generate revenue from controversial sectors of the economy.

We utilise independent research and analysis from Ethical Screening to ensure we apply our criteria fairly and consistently.

- **Strategic Revenue** – we consider whether a particular application of a product or service is a strategic focus for that company or whether it is a minor additional application. For example, radar equipment may be manufactured specifically for military use, or it may be manufactured for multiple civilian applications with some limited use by the military. The former may constitute a strategic focus for the manufacturer.
- **Materiality** – when applying certain exclusions, we also consider the significance of an activity to the company as a whole, currently using a 10% revenue threshold.

We may invest in a company if its activity in an area is not part of its core business and only constitutes an immaterial source of revenue.

The Fund also excludes any company that undertakes revenue generating activity (using a 5% revenue threshold) that is assessed by Ethical Screening, the independent research provider, as negatively impacting achievement of the SDGs. For example, this may include companies that produce vehicles with an internal combustion engine, and those that finance the fossil fuel industry.

Exclusion	Policy	Application
Adult content	Companies involved in the production or distribution of pornographic material.	Materiality or strategic revenue consideration does not apply. We exclude any company involved in the production or distribution of pornographic material.
Armaments	Companies that manufacture or sell weapons or weapon systems, or provide strategic components or services specifically for military use.	We exclude companies manufacturing or selling weapons, or weapon systems, in any capacity. We exclude companies that provide military services or components where that constitutes a material source of revenue for the company.
Alcohol	Companies with major involvement in the manufacture or sale of alcoholic drinks.	We consider materiality and strategic revenue, excluding companies that generate revenue from the manufacture or sale of these products when it is material to the company. We would, however, potentially invest in a railway operator that generated a minor proportion of its revenue from selling alcoholic beverages, tobacco products or lottery tickets at train station kiosks.
Gambling	Companies with major involvement in the operation of gambling facilities.	
Tobacco	Companies with major involvement in the production or manufacture of tobacco products.	
Environment	Companies that undertake activities that have a significant negative environmental impact. Application of this exclusion considers both an assessment of each company's negative environmental impact and any measures deployed to minimise the impacts and risks.	We consider both i) whether a company operates within a high-impact sector (including mining, transport, heavy construction & industrial engineering), and ii) positive steps taken by the company to minimise any environmental impact and a strong thematic alignment. We usually avoid companies from high impact sectors but in certain rare cases we may invest if that company has an above average approach to minimising its negative impact.

Exclusion	Policy	Application
Factory Farming	Companies involved in the rearing of animals in intensive conditions.	We exclude any company that is directly involved in the i) breeding and rearing of animals for food, or ii) operation of abattoirs or the transportation of animals to a slaughter destination. No distinction is made between animals in the meat and dairy industries, and all commercial farming of fish is regarded as intensive.
Fossil Fuels	Companies involved in the exploration, extraction or production of fossil fuels, including natural gas, oil and coal.	Materiality or strategic revenue consideration does not apply here, and we have no revenue threshold below which we may invest. We are proudly #FossilFuelFree and in our view this is a crucial component of any sustainable investment solution. By this we mean that we do not invest in any company that is directly involved in the exploration, production, or extraction of fossil fuels.
High Interest Lending	Companies who provide high-interest consumer credit facilities.	We exclude any company where a principal activity of the business is the provision of potentially predatory consumer credit activities. This includes activities specifically targeting those on lower incomes, with high interest rates and/or those that operate doorstep collection of repayments.
Human Rights	Companies where there is credible evidence that operations, knowingly or unintentionally, cause or contribute to the abuse of human rights, or with operations in countries regarded as having oppressive regimes where evidence is held of their involvement, either by collusion or complacency, in abuses of human rights.	This also includes companies operating in certain countries, such as North Korea, within which our research provider considers it impossible to undertake business without contributing to, or benefiting from, the human rights abuses associated with the regime.
Nuclear	Companies that are involved in the generation of nuclear power or provide nuclear services to the military.	Companies that are directly involved in the generation of nuclear power are excluded. A company providing a product or service that facilitates the generation of nuclear power would not be automatically excluded if this was not a strategic or material focus of the company's operations.

FAQ – What is your approach to Animal Testing?

We distinguish between the use of animal testing for medical and non-medical purposes.

We **do not** invest in cosmetics or toiletries manufacturers or retailers due to these companies routinely carrying out and commissioning animal testing for non-medical purposes.

We do invest in some companies within which animal testing is used for medical purposes, such as pharmaceutical companies which are legally required to test for product safety and toxicity – with most tests still carried out on animals.

When considering investment in a company that has any involvement with animal testing, we assess whether it can demonstrate strong governance and policies, particularly regarding the 3R principles – reduce, refine, and replace.

FAQ – What do you mean by Fossil Fuel Free?

Fossil Fuel Free refers to the exclusion of companies directly involved in the exploration, extraction, or production of fossil fuels, including natural gas, oil, and coal. This means that companies directly engaged in these activities are not considered for investment.

Storage facilities that facilitate fossil fuel production would be considered directly involved in the production of fossil fuels and companies undertaking such activity are excluded. We do draw a distinction between this and the storage of fossil fuels for other activities as there are times when the storage of fossil fuels plays a necessary role in facilitating the clean energy transition.

For example, **VH Global Energy Opportunities**, one of the Funds' renewable energy infrastructure alternative investments, owns liquid storage terminals in Texas that store high-sulphur fuels from Mexico. These terminals serve as aggregation points that allow these fuels to be transported to US refineries where they are processed into lower-emission alternatives. This reduces air pollution in Mexico by replacing high-sulphur fuels with cleaner alternatives, thereby mitigating environmental and health threats in the region. Additionally, VH Global's storage facilities are designed with the future in mind. Over time, they can be repurposed to store renewable fuels such as sustainable aviation fuel (SAF) and renewable diesel, ensuring alignment with long-term decarbonisation goals.

To clarify our use of the term "fossil fuel free", it is important to note that many companies rely on fossil fuels for some or all of their operational energy needs, such as heat and power. Companies using fossil fuel energy are not automatically excluded from our considerations. However, we closely monitor Scope 1, 2, and 3 emissions of our investments as part of our ESG integration process. Companies that are identified as overall ESG laggards, based on these and other aggregated data points, may be excluded from our portfolio.

Stock Selection Journey

Quilter Cheviot's team of sustainable investment specialists actively invests across asset classes according to economic and market conditions. This multi-asset investment approach helps to reduce the volatility of returns over the longer term without compromising the income that is generated. The Funds reflect Quilter Cheviot's house views on asset class allocation according to either a balanced or growth risk profile.

Quilter Cheviot's large research team identifies attractive investment opportunities based on in-depth analysis, face-to-face meetings with company management and detailed due diligence. The investment approach is multi-layered with the Sustainable Investment Universe of companies identified through a combination of positive and negative analyses:

Positive criteria

Sustainable Companies

Aligns with one of the five investment themes

50% or more of the company's revenue generating activity is aligned with a target underpinning one of the 17 SDGs[1]

Other Companies

Included for diversification and portfolio construction

Up to 30% of the Funds may be invested in other assets

Negative screens

Ethical exclusions

Exclude those that generate >5% of revenue from activities obstructing the SDGs

Remove ESG[2] laggards using proprietary sector specific dashboards for quantitative data analysis

Portfolio construction

Attractive investment opportunities

ESG-factor related risks and opportunities

Asset allocation appropriate to each Fund's objectives and prevailing market conditions

1 Sustainable Development Goals
2 Environmental, Social and Governance

ESG factor analysis

Certain companies from the broader Quilter Cheviot investment universe are considered not investable for the Funds on ESG factor considerations.

This may be determined by the Research team when classifying that company in conjunction with the Responsible Investment team, or it may be determined by the Sustainable Investment team when we undertake additional ESG factor analysis.

ESG factor analysis uses Quilter Cheviot's proprietary dashboards which are managed by the Responsible Investment team and used alongside the Research team and the Sustainable Investment team. They allow us to focus on the most pertinent data points for the industry group within which the company we are reviewing operates.

For example, when assessing a pharmaceuticals company, from an ESG factor perspective, we are particularly interested in its strength in ensuring:

- access to healthcare for less-privileged communities, and
- the safety of its products.

When considering ESG factors, a decision to initially invest is not the end of the process. ESG characteristics are broad and dynamic, and a company's profile may change, or new information emerge, which leads us to reassess the appropriateness of our investment. In conjunction with the Research team, twice a year the Responsible Investment team undertakes a review of the categorisation of the monitored investment universe from a responsible investment perspective. Further, an additional ad-hoc review and reassessment may be initiated by the Research team, the Responsible Investment team or our Sustainable Investment team. No matter how it is initiated, when it relates to companies held within the Sustainable Opportunities Funds, the three teams work collaboratively to understand and assess the specific issues.

2025 ESG factor-related engagement activity

Where a specific issue or controversy is identified, our favoured approach is to engage with the company to better understand the issue and steer the company towards what we believe the 'right' course of action may be (see **page 44** for further information on our approach to stewardship). Of course, engagement does not always achieve the desired outcomes and so in certain cases the appropriate course of action for the Sustainable Opportunities Funds may be to divest.

On a number of occasions in 2025, we engaged with companies to better understand specific issues. Considering the specifics of each matter and the productivity of engagement activity, we did not sell any investments driven by ESG-factor related considerations alone.

For example, concerns relating to its new remuneration proposal led us to engage with **Intertek**. We felt that the scale of the increase in potential rewards was excessive. We had constructive discussions, and following our engagement the company withdrew the proposal before the annual general meeting.

We also raised concerns with **Allianz** relating to its structure of long-term bonuses. We outlined our view that payouts should not be made when performance falls below expectations. We communicated our concerns and, as we were not fully reassured by the company's response, we elected to vote against this proposal.

Sustainable Development Goals

An important component of our sustainable investment process is the UN Sustainable Development Goals (SDGs) framework. We see the framework as an invaluable tool for assessing the sustainability characteristics that a company may have and we have integrated consideration of the goals across our investment process, from stock selection to reporting.

In 2015, the 193 member states of the United Nations adopted a set of 17 Sustainable Development Goals. These were an international call to action for all countries – poor, middle-income and rich– to promote prosperity while protecting the planet. Supporting targets - 169 in total - were later defined for each goal, and these are monitored and reviewed using a set of global indicators.

While the framework was initially defined at a national level, it can be applied at a company level too. The proportion of a company's revenue generating activity that contributes to any of the goals and underlying targets can be determined, and this forms a powerful lens through which the sustainability of a company can be assessed.

When undertaking our sustainable investment research, we utilise company SDG alignment analysis and data from an independent research provider, Ethical Screening. In addition to this research being readily available to us, Ethical Screening also produces portfolio level SDG analysis for the Sustainable Opportunities Funds, on a quarterly basis.

In addition to determining whether a company is making a positive contribution to the SDGs, it is also important to consider whether any of its revenue generating activity may actually be negatively impacting achievement of the goals.

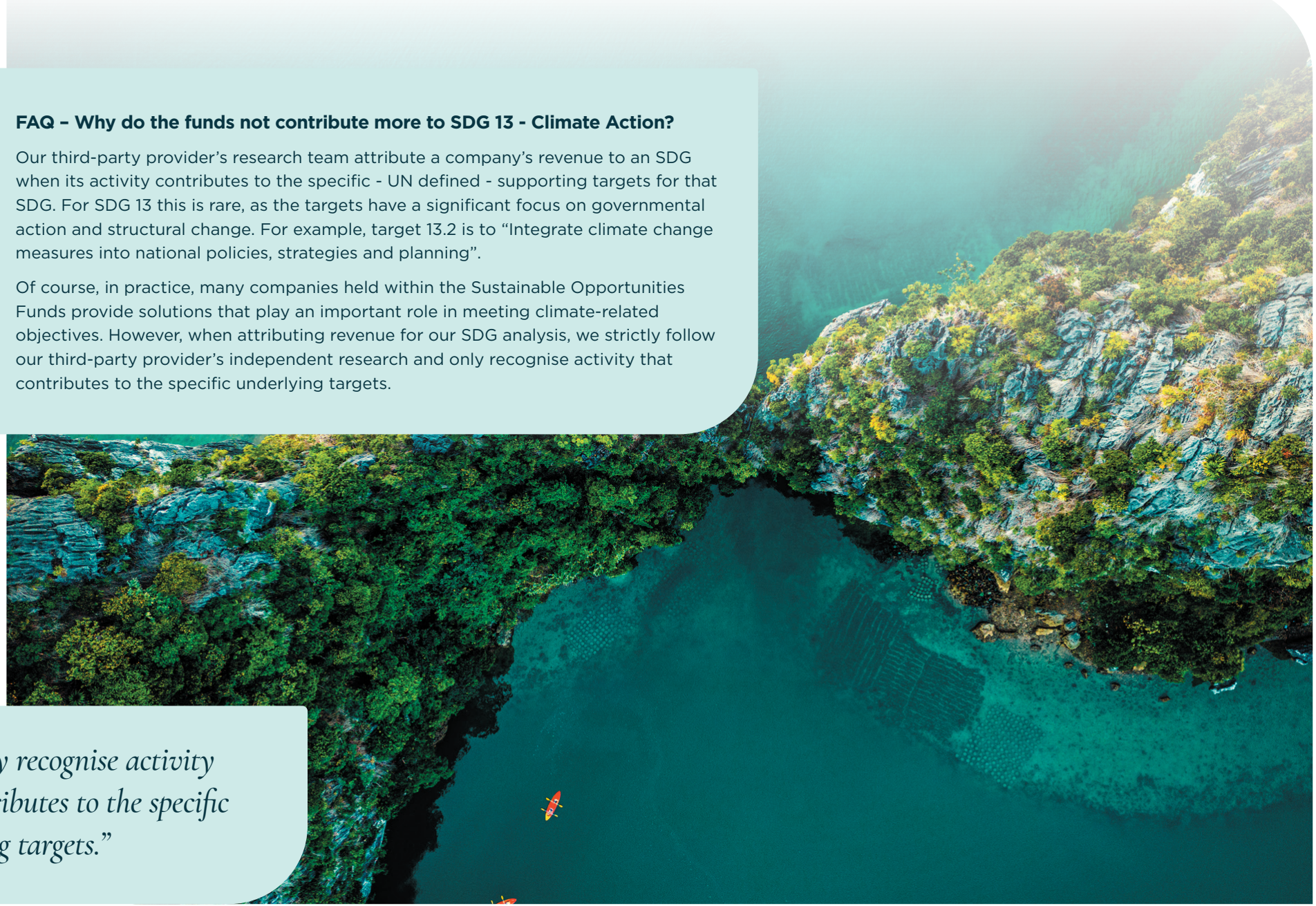
Our third-party provider's research includes analysis of negative company activity too, and the Funds do not invest in any company (using a 5% revenue threshold) that undertakes such activity.

As at 31 December 2025, no such holdings were identified for the Sustainable Opportunities Funds.

FAQ – Why do the funds not contribute more to SDG 13 - Climate Action?

Our third-party provider's research team attribute a company's revenue to an SDG when its activity contributes to the specific - UN defined - supporting targets for that SDG. For SDG 13 this is rare, as the targets have a significant focus on governmental action and structural change. For example, target 13.2 is to "Integrate climate change measures into national policies, strategies and planning".

Of course, in practice, many companies held within the Sustainable Opportunities Funds provide solutions that play an important role in meeting climate-related objectives. However, when attributing revenue for our SDG analysis, we strictly follow our third-party provider's independent research and only recognise activity that contributes to the specific underlying targets.



"...only recognise activity that contributes to the specific underlying targets."

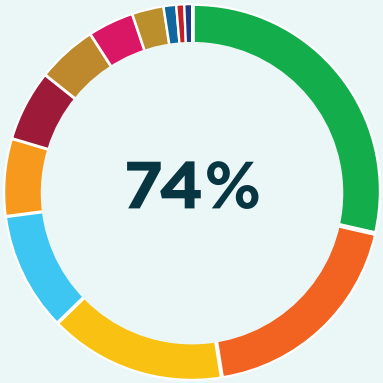
Company SDG Alignment:

73.7% and **72.5%** of the revenue generated by companies held within Sustainable Opportunities Balanced and Growth respectively, is aligned to one or more of the SDGs. When analysing SDG alignment at the portfolio level, we include all equity and corporate bonds as well as alternative investments, such as renewable energy infrastructure investment trusts. We exclude UK sovereign debt and cash from the calculations, as SDG alignment is not applicable for these asset types. The excluded component of Balanced and Growth is **17.9%** and **10.9%** respectively.

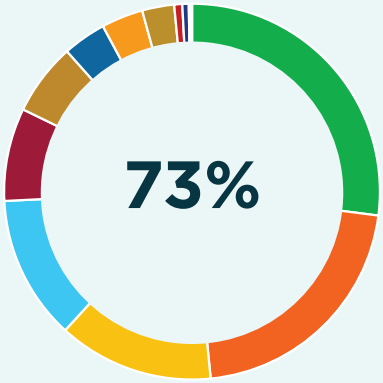
Revenue Alignment To SDGs

Sustainable Development Goals analysis

Sustainable Opportunities Balanced Fund



Sustainable Opportunities Growth Fund



While the companies we hold within the Sustainable Opportunities Funds contribute positively across most of the SDGs, they make a particularly strong contribution to certain SDGs, consistent with our investment themes.

For example, the Funds make a significant contribution to:

SDG 3 – Good Health & Well-Being (generally through our 'Health & Well-Being' aligned holdings)

SDG 6 – Clean Water & Sanitation (through our 'Water' holdings).

SDG 7 - Affordable & Clean Energy (through our 'Clean Energy' holdings) and

Although there is commonality between the two, differences in the SDG profiles of Sustainable Opportunities Balanced and Growth can be explained by asset allocation.

For example, Sustainable Opportunities Balanced has a larger alignment to SDG 7 – Affordable and Clean Energy than Growth. This is due to a greater weighting to clean energy infrastructure alternative investments, such as The Renewables Investment Group, which play an important role in generating renewable energy.

Target-Level Analysis

Each SDG has defined supporting targets that set out the specific action that is required in order to reach the goals. Our SDG company analysis includes considering the company generated revenue that has been attributed to the specific underlying targets.

In many cases a proportion of a company's activity may be relevant to multiple targets. Below, we show an example target for SDG 3, 6 and 7, along with Sustainable Opportunities companies that have activity aligned to each. For each of our investment themes, we have defined 'Primary Targets' that are most closely aligned to each investment theme.

Example targets

3.5 - Reduce by one third premature mortality from noncommunicable diseases through prevention and treatment, and promote mental health and well-being.
Example companies: *Medtronic* and *Thermo Fisher*

6.4 – Increase water-use efficiency across all sectors, and ensure sustainable withdrawals and supply of freshwater to address water scarcity.
Example companies: *Xylem* and *American Water Works*

7.3 – Double the global rate of improvement in energy efficiency.
Example companies: *EDPR* and *TRIG*

Sovereign Debt

The sustainability of sovereign debt instruments is determined by the issuing country's i) SDG index score; and ii) performance in the investment theme core indicators, in both cases based on data from the SDSN Sustainable Development Report.

The UN Sustainable Development Solutions Network (SDSN) has a comprehensive framework for assessing each country's progress towards achieving the SDGs using a broad range of data from across international organisations (such as the World Bank and OECD) and other sources (such as peer reviewed journals). This framework and the corresponding data for each country is published annually in the SDSN Sustainable Development Report. The report scores countries on their progress towards achieving each of the 17 SDGs with the average of all 17 SDG scores giving a country's overall SDG index score. An SDG index score of 100 indicates all 17 SDGs have been achieved by that country.

Additionally, the SDSN Sustainable Development Report includes a traffic light rating system (green, yellow, orange, red) to reflect each country's performance on each specific sustainability indicator based on quantitative thresholds.

In order to determine whether a particular sovereign debt instrument is a Sustainable Asset, we consider both the issuer's SDG index score and the issuer's performance in five core indicators. We selected five investment theme core indicators (one per investment theme) that closely capture the aims and objective of each of the investment themes:

- Annual mean concentration of PM2.5 ($\mu g/m^3$) (an indicator for SDG 11, relating to **Clean Energy**);
- Prevalence of undernourishment (an indicator for SDG 2, relating to **Food**);
- Life expectancy at birth (an indicator for SDG 3, relating to **Health & Well-Being**);
- Non-recycled municipal solid waste (an indicator for SDG 12, relating to **Resource Efficiency**); and
- Population using at least basic drinking water services (an indicator for SDG 6, relating to **Water**).

A sovereign debt instrument is considered sustainable if the issuing country has i) an SDG index score of 80 or higher; and ii) a "green" rating for all of the investment theme core indicators.

As at the most recent SDSN Report, only four of the 201 countries assessed met this standard. They were Germany, Netherlands, Sweden and the United Kingdom.

Further information on the report can be found **here**.

Sustainable Assets

The Sustainable Opportunities Funds must at all times hold a minimum of 70% in sustainable assets. This means assets that meet either the company or sovereign debt sustainability standard.

Sustainable Opportunities Balanced

83.2%

Sustainable Opportunities Growth

82.9%

The percentage of holdings in each Fund as at 31 December 2025 that meet either the company or sovereign debt sustainability standard. For alternatives, corporate debt, and equities, a sustainable asset is defined as one where i) 50% or more of the business aligns with one or more of the Sustainable Development Goals (SDGs and ii) the company provides solutions aligned with one of our five investment themes. Sovereign debt is classified as sustainable if the issuer i) has an SDG index score of 80 or higher and ii) achieved a "green" rating for all five thematic indicators in the most recent SDSN Sustainable Development Report.

Investment Themes

Investments across the five themes provide a broad range of sustainability solutions, products and services. All of the Funds' sustainable companies (including equities, alternatives and corporate bonds) are allocated to one investment theme.

Thematic allocations are influenced by sectoral asset allocation decisions and our view on the most attractive investment opportunities. While investments are spread across the five positive investment themes, allocations are not weighted equally. Both Funds are currently weighted towards Clean Energy, Health & Well-Being, and Resource Efficiency following the attractive investment opportunities in those areas. We monitor investment trends across our themes and are poised to invest when appropriate for our strategy and, as such, thematic allocations continuously change.

We classify a company as sustainable when 50% or more of its revenue-generating activity is aligned with the underlying targets of one or more UN SDGs, and each sustainable company must also align with at least one of our five investment themes based on its SDG alignment profile. The table to the right shows the distribution of Sustainable Companies across these themes.

Equity and corporate bond holdings in Sustainable Opportunities Growth and Balanced have a high degree of commonality. However, the asset allocation differences between a growth (higher equity content versus a balanced mandate) and balanced (higher fixed income content versus a growth mandate) portfolio explain the variation in thematic alignment between the two Funds.

Resource Efficiency - One key reason for the Growth fund having a larger alignment to the 'Resource Efficiency' theme is due to a larger weighting to technology holdings where efficiency, products and data management systems enable consumers to do more with less.

Sustainable Opportunities Funds' Investment Theme Alignment

	Balanced	Growth
Clean Energy	17.6%	16.4%
Food	1.4%	1.8%
Health & Well-Being	39.1%	31.5%
Resource Efficiency	34.7%	40.7%
Water	7.2%	9.6%

(Source, Quilter Cheviot as at 31 December 2025)

Clean Energy

"Global energy transition investment reached a record $2.3 trillion in 2025.[*]*

BloombergNEF

What

We invest in companies that enable the transition away from fossil fuels by generating or supporting clean, renewable energy; advancing the electric-vehicle (EV) value chain; improving energy efficiency; and contributing to sustainable infrastructure. These activities align primarily with SDG 7, 13, 15.

Why

Fossil fuels account for over 75% of global greenhouse gas emissions, making them the largest driver of climate change. Air pollution from their combustion contributes to over 5 million premature deaths each year, and over-reliance on volatile fossil-fuel markets exposes countries to geopolitical and economic risks. Although 92% of the global population has electricity access, 730 million people still live without it and 2.3 billion depend on polluting fuels for cooking. Renewable energy capacity continues to grow but far faster expansion is needed to remain aligned with a 1.5°C climate pathway. Meanwhile, rapidly falling costs of solar and wind, down 85% and 55% respectively over the past decade, have made renewables the cheapest form of new power generation, supporting the continued expansion of clean energy solutions.

How

Our Clean Energy theme covers renewable energy generation, enabling technologies and end-use applications. Companies may generate clean electricity or manufacture essential components such as turbines, inverters and semiconductors. Technologies that support the transition are expanding quickly: global battery storage capacity reached 45 GW in 2024, improving grid flexibility, while more than 190 million heat pumps and 4 million public EV chargers are helping decarbonise heating and transport. Smart-grid technologies are enhancing system efficiency by reducing electricity losses by up to 30%, enabling higher renewable penetration and supporting a more resilient, low-carbon energy system.

Primary Targets:

SDG 7.1	By 2030, ensure universal access to affordable, reliable and modern energy services
SDG 7.2	By 2030, increase substantially the share of renewable energy in the global energy mix
SDG 7.3	By 2030, double the global rate of improvement in energy efficiency

[*] **https://about.bnef.com/insights/clean-energy/bloombergnef-finds-global-energy-transition-investment-reached-record-2-3-trillion-in-2025-up-8-from-2024/**

Schneider Electric

Investment theme:
Clean Energy

SDG with largest revenue alignment

Region:
Europe

Revenue alignment to any SDG:
82%

Schneider Electric is a French multinational company specialising in electricity distribution and automation management. It serves a global customer base across residential, commercial, and industrial sectors, including utilities, general industry, and data centres. The company operates through two main segments: Energy Management and Industrial Automation. Energy Management includes low-voltage solutions such as circuit protection, medium-voltage technologies like transformers and grid automation, and secure power systems for data centres. Industrial Automation provides solutions for automating and controlling machinery and industrial operations. Schneider Electric's diversified business model is well placed to benefit from long-term trends in electrification and digitalisation.

The company offers a range of technologies that support more efficient and resilient energy systems. Its low-voltage portfolio includes power monitoring and building automation tools designed to improve energy use. As an example, its digitally connected power distribution solution can reduce energy consumption and costs by an impressive c.30%.

Schneider Electric also supplies solar power generation and storage solutions for both residential and commercial use, alongside energy consulting services. Products such as EV charging infrastructure and battery storage systems are designed to support the transition to lower-carbon energy sources. These solutions are aligned with **SDG 7 (Affordable & Clean Energy)** and the company is part of our **"Clean Energy"** investment theme.

The company has a long-standing focus on sustainability reporting and target-setting. It began aligning its disclosures with the UN Global Compact in 2005 and currently operates under a 2021–2025 Sustainability Impact Programme. This initiative outlines six long-term commitments, each supported by measurable targets. For example, Schneider aims to help customers avoid 800 million tonnes of CO_2 emissions between 2018 and 2025. The company also reports relatively low operational emissions compared to peers and has committed to further reductions through the Science-Based Targets initiative. These efforts are subject to third-party verification and are publicly disclosed.

While Schneider Electric's sustainability initiatives are ambitious, their effectiveness depends on continued execution, transparency, and independent validation. The company's track record and current strategy suggest it is taking meaningful steps towards improving energy efficiency and reducing environmental impact, underpinned by the energy transition opportunity.

7 AFFORDABLE AND CLEAN ENERGY

9 INDUSTRY, INNOVATION AND INFRASTRUCTURE

Clean Energy

Current situation around the world

92% of the world has electricity

85% of the world's population without electricity lives in Sub-Saharan Africa, up from 50% in 2010

One-seventh of primary energy is sourced from renewables

Energy investment

Total global energy investment in 2025

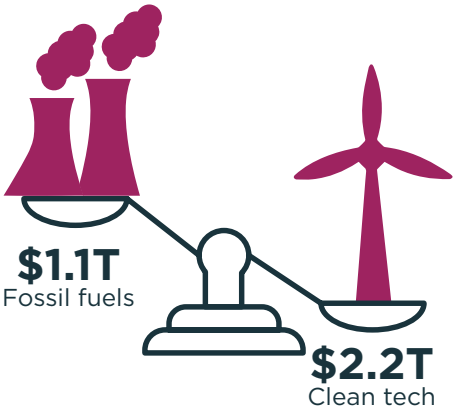
$3.3T

with clean tech doubling that of fossil fuels

Renewables 5072 TWh

Coal 4896 TWh

Renewables produced more electricity than coal for the first time on record in the first half of 2025



What problems are we currently facing?

Fossil fuels drive severe air pollution, causing over **5 million** premature deaths every year

730m people lack access to electricity

2.3Bn people still cook with polluting fuels like wood and charcoal

The challenge

Global wind capacity reached **1,136 GW** in **2024** and grew by **~16% in 2025**

To align with a **1.5 °C** pathway, the world needs **3,200 GW** by **2030**.

Energy-related CO_2 emissions remain high at **~38 Gt** in **2024**.

Even with all current pledges delivered, emissions are forecast to exceed the **1.5 °C** pathway through **2050**, with warming expected to peak near **1.65 °C** before mid-century.

Sources: World Economic Forum, World Bank, International Energy Agency, UN SDG, Ember

Food

*"Around 30% of global food production is lost or wasted each year, largely due to limited access to technology and markets for many farmers.**

World Food Programme

What

We invest in companies that provide food solutions, ensuring a sustainable and effective food system. This area is often closely aligned with the targets that underpin SDG 2 and 12.

Why

A sustainable and resilient food system is fundamental to human well-being and global economic stability. However, climate change, water scarcity, soil degradation and rising inequality continue to undermine food availability and nutrition outcomes. Twenty three per cent of children worldwide experience stunted growth, and 6.6% of children under five suffer from wasting, demonstrating the ongoing impact of poor nutrition and structural vulnerabilities.

Despite global advances, significant inefficiencies persist across the food value chain. The UN estimates that global hunger could be eliminated by 2030 through the adoption of smarter farming methods, improved distribution and greater resource efficiency. Achieving this would require approximately $1.3 trillion in annual investment to transition agricultural systems toward sustainable practices. Investing in companies advancing food safety, efficient production and waste reduction therefore plays a critical role in enabling this transition and supporting long term global resilience.

How

Our Food theme may encompass a diverse set of opportunities across the food value chain. Companies in this area strengthen food systems by improving safety, enhancing efficiency and reducing waste. Food safety and testing technologies help identify pathogens and contaminants before they reach consumers, safeguarding public health and reducing economic losses. Precision and climate controlled agriculture is expanding rapidly, with market forecasts projecting growth from $25 billion in 2024 to $84 billion by 2033, supported by innovations such as connected sensors, autonomous equipment and controlled environment agriculture. Sustainable packaging solutions extend shelf life and prevent unnecessary food waste. High tech harvesting and processing systems improve productivity while helping maintain nutritional value.

Micro irrigation systems can improve water efficiency by up to 90% while increasing crop yields by 45%, demonstrating the impact of targeted resource use. Smart irrigation controllers, powered by predictive analytics and Internet of Things (IoT) technology, can reduce water use by 50% while boosting yields by 20–25%, reflecting how technology supports both environmental and economic outcomes.

Primary Targets:

SDG 2.1	By 2030, end hunger and ensure access to safe, nutritious food for all, especially the poor and vulnerable
SDG 2.4	By 2030, ensure sustainable food production with resilient agricultural practices and ecosystem protection
SDG 12.3	By 2030, halve global food waste per capita and reduce food losses in production and supply chains

* **https://www.wfp.org/ending-hunger**

Food – Company example

Kubota

Investment theme:
Food

SDG with largest revenue alignment

Region:
Asia-Pacific

Revenue alignment to any SDG:
98%

Kubota is a leading global supplier of agricultural machinery and smart-farming technologies, a critical enabler of food production across the Asia-Pacific region. It is Japan's largest agriculture-equipment provider, with a dominant presence in rice-producing markets such as Thailand, China, Cambodia, Laos and Vietnam. Kubota's core business, spanning tractors, combine harvesters, rice transplanters and specialist rice-farming machinery, demonstrates strong alignment with **SDG 2 (Zero Hunger)** by improving agricultural productivity, reducing labour intensity and supporting resilient food systems.

Alongside traditional machinery, Kubota is expanding its suite of smart and automated technologies through its "smart agri-system," which integrates advanced equipment with Information and Communication Technology (ICT) solutions. These tools enhance operational efficiency, support precision farming practices and help mitigate the challenges posed by labour shortages, climate variability and the need for higher yields. The company is also progressing the development of automated farming machinery, which has the potential to unlock further gains in productivity and sustainability across developing agricultural markets.

Kubota also contributes to **SDG 6 (Clean Water & Sanitation)** through its water-related businesses. It manufactures pipe systems, pumps and water-treatment facilities, including earthquake-resistant pipelines crucial for ensuring reliable access to drinking water in regions facing water scarcity or vulnerable to natural disasters. These systems play a vital role in supporting community resilience and maintaining essential water infrastructure.

Through its products and operations, Kubota contributes directly to:

- SDG Targets 2.3 & 2.4: improving agricultural productivity and promoting sustainable farming.
- SDG Target 2.a: expanding access to agricultural technology in developing markets.
- SDG Target 6.1: ensuring access to safe and reliable drinking water through robust pipeline and treatment systems.

From an environmental perspective, approximately two-thirds of Kubota's sales are currently derived from "environmentally friendly products," with a target to increase this to 80% by 2030. This transition is significant given that most of Kubota's emissions arise from product use (Scope 3) and expanding cleaner product lines can meaningfully reduce downstream impact. The company has set Scope 1 and 2 reduction targets, and while progress is being made, such as lowering handling to 1,250 tonnes in FY2024 and achieving a 70% recycling rate, further ambition on absolute emissions, water use and waste targets would strengthen its environmental strategy.

Kubota's essential role in enhancing food production, coupled with its growing commitment to environmental performance and water-infrastructure solutions, makes it a strong fit for our Food investment theme.

2 ZERO HUNGER

12 RESPONSIBLE CONSUMPTION AND PRODUCTION

Food

What problems are we currently facing?

1 in 12
people globally face hunger

23%
of children had stunted growth

6.6%
of children under the age of 5 were affected by wasting

70%
of the world's freshwater withdrawals are for agricultural uses

Market growth for smart agriculture solutions

The market for smart agriculture solutions is growing rapidly **(14.6% CAGR)**

$25 billion in 2024 and is projected to reach **$84 billion by 2033**

- **Machine to machine applications**
- **Agricultural robots**
- **Greenhouse Automation**
- **Controlled Environment Agriculture Solutions**
- **Livestock Monitoring**
- **Yield Monitoring Solutions**

We already have the tools to produce enough food for everyone. Global hunger could be eliminated by **2030** – **a UN goal** – through smarter farming and better distribution

The UN estimates the cost of the transformation to **sustainable agricultural** practices to be **$1.3 trillion** a year

Examples of progress

Micro-irrigation
Improves water efficiency by up to **90%** and increases crop yields by **45%**

Smart Irrigation Controllers
Use IoT sensors and predictive analytics to automate watering based on soil and weather data, saving up to **50%** water and boosting yields by **20–25%**

Source: UN SDG inspo, Food and Agriculture Organization, BCG, World Economic Forum

Health & Well-Being

> *"The cost of medical care is expected to rise globally by 10.3% in 2026.*"*
>
> **Willis Towers Watson**

What

We invest in companies that provide health solutions, aiming to ensure healthy lives and promote well-being for all. This area is often closely aligned with the targets that underpin SDG 3 and sometimes aligned with those that underpin SDG 1, 4, 5, 8, 10 and 11.

Why

Global health challenges are intensifying. One in eight people worldwide live with obesity, driving higher rates of diabetes and cardiovascular disease. Infectious disease remains a threat, with malaria cases reaching 249 million and causing 608,000 deaths, predominantly among children under five. Demographic change is accelerating: by 2050, the population aged over 60 is projected to reach 2.1 billion, placing significant strain on healthcare infrastructure. At the same time, OECD countries spend over 9% of GDP on healthcare, highlighting the need for more efficient, accessible solutions. Life expectancy has begun to recover to 73.3 years, supported by improvements in diagnostics, treatments and preventive care. Companies addressing these challenges, through innovation, improved access or strengthened care delivery, contribute directly to the Funds' objective of supporting sustainable societies.

How

Our Health & Well-Being theme includes companies operating across medical technologies, diagnostics, pharmaceuticals, biotechnology and healthcare facilities. These companies enable earlier diagnosis, more effective treatments and stronger care delivery systems. Advances in imaging, molecular testing and AI-enabled diagnostics are improving accuracy and speeding up clinical decision-making, while life-science tools support essential research and vaccine development. Medical device companies provide equipment critical to everyday healthcare, and pharmaceutical innovators develop treatments for conditions such as diabetes, cancer and infectious diseases. Digital health and remote-care technologies are also enhancing access and reducing pressure on healthcare systems, particularly in underserved communities. Collectively, these solutions help strengthen global health resilience and advance SDG 3 objectives.

Primary Targets:

SDG 3.2	By 2030, end preventable deaths of newborns and children under 5; reduce neonatal deaths to ≤12 per 1,000 and under-5 deaths to ≤25 per 1,000
SDG 3.3	By 2030, end AIDS, tuberculosis, malaria, neglected tropical diseases, and combat hepatitis, water-borne and other infectious diseases
SDG 3.4	By 2030, reduce premature deaths from non-communicable diseases by one-third and promote mental health
SDG 3.8	Achieve universal health coverage, including financial protection and access to quality health services and affordable essential medicines and vaccines
SDG 3.9	By 2030, reduce illnesses and deaths from hazardous chemicals and air, water, and soil pollution
SDG 10.2	By 2030, promote inclusion for all regardless of age, gender, disability, race, ethnicity, origin, religion, or status
SDG 11.2	By 2030, provide access to safe, affordable, and sustainable transport and improve road safety
SDG 11.6	By 2030, reduce the environmental impact of cities, focusing on air quality and waste management

* **https://www.wtwco.com/en-us/insights/2025/10/2026-global-medical-trends-survey**

Health & Well-Being – Company example

Medtronic

Investment theme:
Health & Well-Being

SDG with largest revenue alignment

Region:
North America

Revenue alignment to any SDG:
100%

Medtronic's core business involves the manufacturing of medical technology, services and solutions, primarily focused on addressing critical health issues such as cardiac and vascular diseases, diabetes, and minimally invasive therapies. The company targets hospitals, clinics, healthcare providers, and third-party distributors. Additionally, Medtronic partners with government healthcare programs, group purchasing organizations, and other institutions to support the healthcare system globally.

With the growing ageing population and rising healthcare demands, Medtronic is committed to developing cost-effective healthcare innovations. It provides solutions to improve efficiency, drive innovation, and create opportunities throughout the healthcare sector, supporting health systems worldwide in its mission to promote healthier lives. Medtronic's efforts align with our "**Health & Well-Being**" investment theme and **SDG 3 (Good Health & Well-Being)**, ensuring that its activity is dedicated to advancing health outcomes.

Medtronic's international efforts focus on improving healthcare access, especially in marginalised communities, and reducing premature deaths from non-communicable diseases. One significant initiative, the Shruti program in India, addresses chronic ear infections and related hearing impairments by promoting awareness, enabling diagnosis, and offering treatment to underserved populations.

Through its products and services, Medtronic contributes directly to:

- SDG Target 3.4: By 2030, reduce by one third premature mortality from non-communicable diseases through prevention and treatment and promote mental health and well-being
- SDG Target 3.8: By 2030, ensure universal health coverage, including financial protection and access to essential health services, medicines, and vaccines for all.

Medtronic is committed to reducing its carbon emissions. The company has made ambitious plans to achieve carbon neutrality in its operations by 2030 and its value chain by 2045, and is investing in a range of energy transition projects to reduce both its emissions and operational costs. Medtronic has also committed to set long-term net zero targets validated by the industry gold-standard SBTi. These efforts reflect a broader commitment to embedding environmental responsibility into its long-term strategy.

3 GOOD HEALTH AND WELL-BEING

10 REDUCED INEQUALITIES

Health & Well-Being

What problems are we currently facing?

Every
2 minutes
a woman dies from preventable causes relating to pregnancy or childbirth

There were
282 million
cases of malaria in **2024** and **610,000** malaria deaths across **80 countries**

Children under 5 accounted for **~75%** of all malaria deaths

1 in 8 people
in the world are living with obesity

>50% of adults worldwide predicted to be obese or overweight by **2050**

Why we need to invest in solutions to these healthcare challenges

In 2024, OECD countries are estimated to have allocated around
9.3% of their GDP to health on average

The global population is aging rapidly, with the number of people **60+** set to double to **2.1billion** (26% of the world's total) by **2050**

How are advances in healthcare progressing?

146 countries met or are on track to meet the under-5 mortality target

Life expectancy climbs again post-pandemic, hitting **73.3** years

Global AIDS-related deaths have fallen by around **55%** since **2010**

The global AI in diagnostics market is projected to reach approximately **$8** billion by **2033**

Source: UNStats, WHO, BBC, World Obesity

Resource Efficiency

> *Only 6.9% of global materials are recycled.**"

Circularity Gap Report 2025

What

We invest in companies that provide efficiency solutions, aiming to use resources in smarter and more effective ways. This area is often closely aligned with the targets that underpin SDG 8, 9, 11, 12 and sometimes aligned with those that underpin 16 and 17.

Why

Global resource use continues to accelerate. Material consumption is projected to reach 145 billion tonnes by 2050, driven by economic development, urbanisation and population growth. Meanwhile, waste volumes are rising, with global waste generation expected to increase by 70% by 2050. Plastic pollution illustrates the scale of the challenge: 98% of all plastics are still produced from fossil fuels, and only 9% are recycled. As a result, most plastic waste ends up in landfills or the natural environment. These pressures are connected to broader environmental risks, including climate change, biodiversity loss and pollution, which threaten long-term economic stability.

At the same time, economic opportunity is expanding. The circular economy market was valued at $518 billion in 2025, with projections exceeding $1.3 trillion by 2030, reflecting the rapid growth of technologies and services that enable recycling, reuse, repair and more efficient consumption. Companies that help reduce waste, improve productivity or enhance the performance of resource-intensive industries are well positioned to benefit from regulatory momentum, shifting consumer behaviour and structural industrial transformation.

How

Our resource efficiency theme includes companies that improve resource productivity through circular business models, advanced automation, efficient industrial technologies, and digital solutions that reduce waste and optimise the use of materials, energy and water. We also include sustainable transport solutions that enhance mobility while lowering environmental impact, such as efficient rail systems, and low-carbon logistics. These solutions help industries and communities operate more efficiently while supporting the transition to a low-waste, low-carbon economy.

Primary Targets:

SDG 8.2	By 2030, increase economic productivity through diversification, technology, and innovation, especially in high-value and labour-intensive sectors
SDG 8.3	By 2030, promote policies that support productive activities, decent jobs, entrepreneurship, innovation, and small business growth, including access to finance
SDG 9.1	By 2030, develop reliable, sustainable, and resilient infrastructure that supports development and equitable access
SDG 9.4	By 2030, upgrade industries and infrastructure to improve resource efficiency and adopt clean, environmentally sound technologies
SDG 11.2	By 2030, provide safe, affordable, and sustainable transport for all, with expanded public transit for vulnerable groups
SDG 12.2	By 2030, achieve the sustainable and efficient use of natural resources
SDG 12.4	By 2030, ensure environmentally sound management of chemicals and waste, reducing releases to air, water, and soil
SDG 12.5	By 2030, substantially reduce waste through prevention, reduction, recycling, and reuse
SDG 12.6	By 2030, encourage companies, especially large and multinational, to adopt sustainable practices and report on their impacts

* **https://pdf.circularity-gap.world/?report=CGR_Global_2025_Report_0c90048033&page=1**

Resource Efficiency – Company example

Emerson Electric

Investment theme:
Resource efficiency

SDG with largest revenue alignment

Region:
North America

Revenue alignment to any SDG:
77%

Emerson Electric is a global leader in designing, manufacturing, and implementing innovative technology solutions for customers across industrial, commercial, and consumer markets. It offers a broad range of solutions to meet diverse customer needs, including automation technologies that enhance productivity, safeguard personnel and the environment, and reduce operating costs. We believe Emerson is well-positioned to benefit from trends such as net zero initiatives and inflationary pressures.

Emerson aligns closely with our "**Resource Efficiency**" investment theme and plays a vital role in advancing **SDG 9 (Industry, Innovation, & Infrastructure)**. The company's automation and control technologies, such as SmartProcess and solar tracking systems, significantly improve industrial efficiency, support sustainable infrastructure, and help mitigate environmental impacts.

Emerson's energy management systems and control software play a critical role in optimising energy use and enabling the integration of renewable energy sources into power generation. These technologies directly support the global goal of doubling energy efficiency by 2030, contributing to **SDG 7 (Affordable & Clean Energy)**. Emerson also provides solutions aimed at reducing emissions, waste, and energy consumption in production processes. Its cold chain technologies, designed to minimise food loss, align with the objectives of **SDG 12 (Responsible Consumption & Production)**.

Through its products and services, Emerson Electric contributes directly to:

- SDG Target 9.4: By 2030, make industry and infrastructure cleaner and more efficient using sustainable technologies and processes suited to each country's capabilities.
- SDG Target 12.3: By 2030, halve global food waste and reduce losses across supply chains, including post-harvest.
- SDG Targets 7.2 & 7.3: By 2030, grow the share of renewables and double the pace of energy efficiency improvements.

Emerson has improved its climate ambitions with an absolute target of 90% reduction of its operational (Scope 1 and 2) emissions by 2030, and has demonstrated meaningful progress against this. The company has developed clear transition plans and participates in initiatives such as RE100, committing to sourcing 100% of its electricity from renewable sources by 2030. Its supplier engagement programmes and other levers to reduce its Scope 3 emissions are particularly well-developed, and is an apt demonstration of a company using its market share to lead in this area.

8 DECENT WORK AND ECONOMIC GROWTH

9 INDUSTRY, INNOVATION AND INFRASTRUCTURE

11 SUSTAINABLE CITIES AND COMMUNITIES

12 RESPONSIBLE CONSUMPTION AND PRODUCTION

Resource Efficiency

What problems are we currently facing?

On average, the world generates **2 billion** tonnes of municipal solid waste annually

Material use could hit **145 billion** tonnes by **2050** if current trends continue

A third of all food produced is wasted. **931m** tonnes each year

Issues resulting from our use of plastics are an example of why we need higher levels of Resource Efficiency

Plastics take
450 years
to degrade

98% of plastics produced are still made using fossil fuels

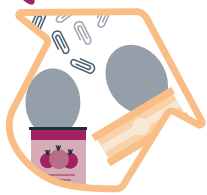
85% of plastic globally goes to landfill or into the sea

In **2025**, the global circular economy market is valued at approximately **$518 billion** with projections reaching well over **$1.3 trillion by 2030**

Electronic waste recycling
The global electronic waste recycling market size was valued at USD **$52 billion** in **2025**

Only **70%** of **metal waste** is collected for waste management. Less than **10%** is recovered, reused or recycled

Plastic Recycling
Most UK households throw away at least **40kg** of plastic each year



105 tons of **medical waste** produced every day.
15-25% of this is infectious or hazardous waste

Only **30%** of **bio-waste** is properly collected. Approximately **5%** as bio-fuel, fertiliser, etc.

Source: fortune business insights, UNstats, UNEP, Circular online

Water

> *"Only 1% of water on Earth is usable and available freshwater.*"*
>
> United Nations

What

We invest in companies that provide water solutions, helping ensure safe and clean water is available to all. This area is often closely aligned with the targets that underpin SDG 6 and sometimes aligned with those that underpin SDG 14.

Why

Global water systems face growing pressure due to climate change, population growth and rapid urbanisation. Today, 2.3 billion people live in water stressed countries, and 1 in 4 people globally lack access to safe drinking water. At the same time, 3.5 billion people still lack safely managed sanitation services, increasing the likelihood of waterborne disease and environmental contamination. Only 56% of domestic wastewater is safely treated worldwide, underscoring the persistent gap in infrastructure and investment. Demand for water continues to rise, driven by agriculture, which accounts for 70% of global freshwater withdrawals, and increasing industrial use.

Environmental pressures are intensifying: climate related droughts, floods and extreme weather are disrupting water availability and damaging existing infrastructure. Urban populations are expected to grow further, increasing demand for efficient, resilient water systems. At a global level, the economic cost of inadequate water supply and sanitation is estimated at $260 billion annually, while achieving universal access to safe water, sanitation and hygiene could deliver $18.5 billion in annual economic benefits according to UNICEF.

How

Our Water theme includes companies operating across water utilities, water technology providers, monitoring and purification specialists and efficient irrigation solution providers. Water utility companies develop and maintain essential infrastructure for the reliable provision of clean water and safe wastewater treatment. Technology led companies provide monitoring sensors, testing equipment and purification systems that enhance water quality, reduce contamination risks and improve operational accuracy.

Leak detection and prevention technologies help utilities reduce non revenue water losses, especially in regions where ageing infrastructure leads to significant leakage. Irrigation technology companies support farmers in applying water more efficiently, helping reduce waste and improve yields. Monitoring and purification systems help ensure that both households and businesses have access to water that is safe, reliable and sustainably delivered.

Together, these companies support progress toward SDG 6 by improving access to safe water, strengthening resilience to water scarcity and reducing environmental and public health risks associated with inadequate water management.

Primary Targets:

SDG 6.1	By 2030, ensure universal and equitable access to safe and affordable drinking water for all
SDG 6.2	By 2030, provide adequate and equitable sanitation and hygiene for all, end open defecation, and prioritise the needs of women, girls, and vulnerable groups
SDG 6.3	By 2030, improve water quality by reducing pollution, cutting hazardous waste, halving untreated wastewater, and expanding recycling and safe reuse globally

* **https://www.un.org/sustainabledevelopment/water-and-sanitation/**

Water – Company example

American Water Works

Investment theme:
Water

SDG with largest revenue alignment

Region:
North America

Revenue alignment to any SDG:
100%

American Water Works (AWW) is the largest and most diversified publicly traded water and wastewater utility in North America. It provides drinking water, wastewater, and other water services to customers across the United States and parts of Canada. AWW is well-positioned to capitalise on structural tailwinds in the US water utility sector by leveraging its strong market position for further growth. This includes expanding its wastewater services, which currently account for a relatively small proportion of the business, in areas where it already operates.

Its core business focuses on delivering clean water and managing wastewater, supporting progress towards **SDG 6 (Clean Water & Sanitation)**. The company's sanitation products and services play a crucial role in improving water quality, promoting recycling, and supporting the safe reuse of water resources. For these reasons, the company fits within our "**Water**" investment theme. By addressing critical risks to water and wastewater systems, AWW helps to safeguard these vital resources.

Revenue generating activity aside, the company demonstrates a strong commitment to **SDG 5 (Gender Equality)** by actively promoting gender equality throughout its operations. This is achieved through comprehensive policies focused on leadership development, pay equity, and enforcing anti-harassment measures. This initiative reflects a dedication to fostering a workplace that is both inclusive and equitable.

Through its products and services, AWW contributes directly to:

- SDG Target 6.1: By 2030, achieve universal and equitable access to safe and affordable drinking water for all.
- SDG Target 6.3: By 2030, improve water quality by cutting pollution, halving untreated wastewater, and boosting recycling and safe reuse globally.

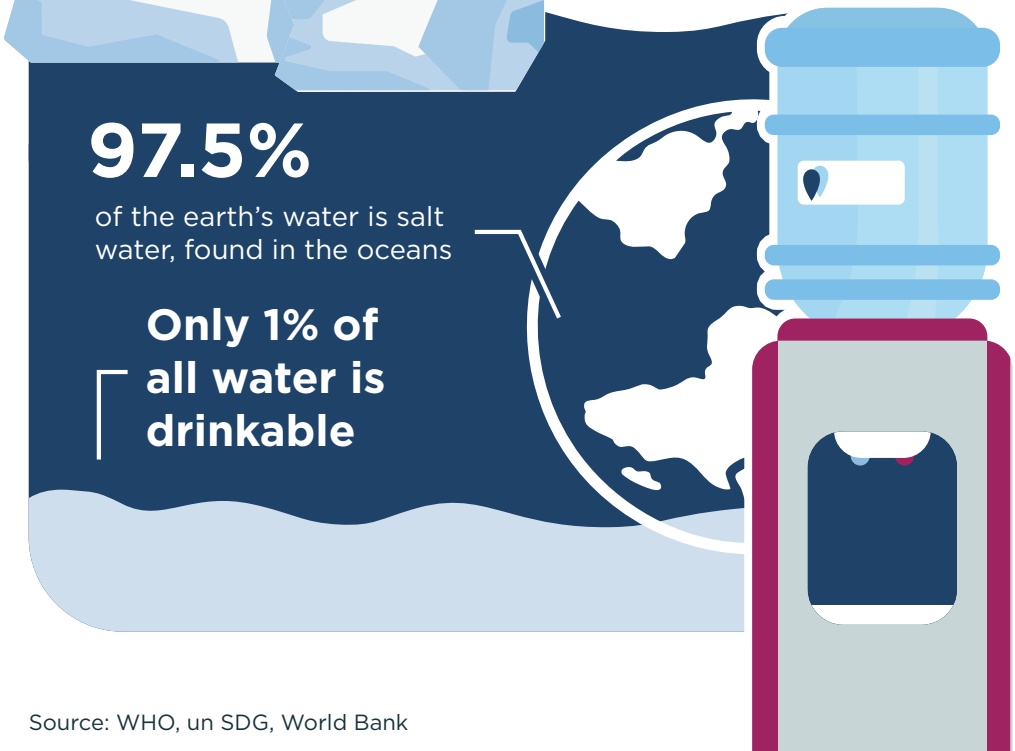
The company is focused on reducing its environmental impact by investing in infrastructure to limit water leakage and increase its operational efficiency. AWW has set a target to reduce carbon emissions by 50% by 2035, using 2020 as the baseline. However, obtaining validation by a third party such as the Science Based Targets initiative (SBTi) would significantly bolster the credibility of its carbon reduction ambitions and provide further evidence of its alignment with international climate science.

6 CLEAN WATER AND SANITATION

Water & Sanitation

1.5%

of the world's water is located in glaciers, ice caps, and permafrost, or is buried deep in the ground



97.5%

of the earth's water is salt water, found in the oceans

Only 1% of all water is drinkable

What problems are we currently facing?

Water-related disasters have increased by **70% since 2000**

1 in 4

people globally still lack access to safe drinking water

3.4B

people still lack safely managed sanitation

Only 55.8%

of domestic wastewater is safely treated worldwide

2.3B

people live in water-stressed countries, with climate change exacerbating the issue

Water Tech Is Accelerating

Singapore & Copenhagen:

Smart water systems using IoT sensors, AI, and real-time data are transforming utility operations

Non-revenue water (NRW) - the share of water lost before it reaches customers - is below **5%** thanks to advanced leak detection and monitoring

To close the water ↓↓ & ↑↑ sanitation gap...

global investment must triple to **$114 billion** a year

Integrated Water Resources Management is scaling up

81 countries

now report advanced IWRM implementation (2024)

Source: WHO, un SDG, World Bank

Insights: Health & Well-Being

Caroline Langley

Deputy Fund Manager

Caroline has 20 years of investment experience, having joined Quilter Cheviot in 2006. She has been Deputy Fund Manager since 2018. Co-creator of the Sustainable Opportunities philosophy, she also manages charity and private client portfolios, working with clients directly or alongside advisers. Caroline has an MSc in Environmental Technology from Imperial College, specialising in Global Environmental Change and Policy, is a Chartered FSCI and a Chartered Accountant FCA (ICAEW).

This Sustainable Investment Report marks the first full year where this theme has expanded to explicitly include Well-Being alongside Health. This mirrors the Sustainable Development Goal 3 (SDG3) which is targeting the global problem that we are still spending an astonishing amount of money and resources on treating illnesses that are surprisingly easy to prevent. Thus, SDG3 encompasses promoting healthy lifestyles and preventative measures, as well as the provision of modern, efficient healthcare for everyone.

Our traditional, long-favoured Health stocks like **Thermo Fisher Scientific**, with its life-sciences tools for research and diagnostics, **Medtronic** with its device-based therapies (like pacemakers and stents) and **Novartis** with its treatments and drugs are still core positions in the Sustainable Opportunities funds. We see today in these businesses continuous research and development in the tools, devices and drugs which will help address the global healthcare issues. For instance, amongst their extensive portfolio, **Thermo Fisher Scientific** has genetic sequencing and analysis technologies as well as clinical chemistry systems that support allergy testing, autoimmune diagnostics, and routine clinical workflows.

In addition, we are able to capture and target wide ranging sustainable investment opportunities using our methodology for companies using revenue alignment with Sustainable Development Goals. Through this methodology we identify many socially sustainable companies' that fill an important role in the strategy. Many of these fit into our Health and Well-Being theme.

We invest in corporate bonds issued by quality social and supported housing: **Places for People** and **London & Quadrant** housing trusts. Trusts like these play a vital role in addressing the UK's shortage of specialist accommodation by funding high quality, fit for purpose homes for individuals with complex needs. They provide long term, stable housing solutions that improve independence and quality of life while reducing pressure on more expensive public services.

Another vital element we can support with our investment approach is financial well-being. We know financial stress contributes to much anxiety and depression. **New York Life** and the life insurance products provide financial stability and security which helps people manage the risks of death, disability and falling into poverty. Likewise Health Insurance provided by companies like **Prudential**, provides financial protection to those underserved by universal healthcare. A healthier population is more productive and being healthier reduces social inequalities.

Helping provide equal opportunities for underserved groups is another way our investments support Well-Being. **Motability Operations Group** leases vehicles and mobility solutions like powered wheelchairs and scooters to those with disabilities. These enable greater independence and remove mobility related barriers that can otherwise restrict access to employment, education, healthcare and community life. This directly boosts quality of life and supports social inclusion. This is another instance of us investing in the corporate bond to access this opportunity, the choice of bonds like this is made in conjunction with our fixed interest analyst Richard Carter.

Some of the businesses that we invest in that don't count as sustainable (as their SDG alignment is under 50%) but do still have some positive contribution to well-being although insufficient to be assigned to this theme. For instance **Visa** is committed to expanding access to the unbanked and underserved – for instance, through digitally enabling small and micro businesses.

Whilst **Infineon's** main revenue alignment is with the Clean Energy theme, it also develops semiconductors for use in medical devices systems for wearable technologies and e-health cards. These store key medical data and prevent fraud by using biometrics. This links to Health and Well-Being because of the contribution these devices and cards make to reducing mortality from non-communicable diseases.

Novo Nordisk has been a disappointing performer in investment terms this year but we still see GLP-1 (glucagon-like peptide receptor agonists) weight-loss and diabetes drugs as having interesting potential beyond their current applications. We stress weight-loss is not trivial issue, obesity is a significant contributor to chronic disease - heart disease, stroke and diabetes – and these applications alone could be transformational. Now research is also targeting applications for GLP-1s for cardio-vascular benefits and potentially reducing cognitive decline in Alzheimer's patients. If GLP-1s reduce desire for food there could also be applications in reducing cravings for alcohol, nicotine, drugs - and even online shopping, nail picking, social media, over-working - the list goes on. There is possible overlapping circuitry linking compulsive behaviours, appetite and satiety, which are all in effect the lack of homeostasis and balance. We are watching developments in this space carefully.

There is a lot of novel investment potential in Health and Well-Being already. We also see the range of ways we can invest in this theme set to increase in the years ahead as wellness products and brands across gut health, hydration, sleep and movement become more established.

Investment Review

Harry Gibbon

Fund Manager

Harry works alongside Claudia Quiroz managing our award-winning Sustainable Opportunities Balanced and Growth Funds as well as the Quilter Investors Ethical Equity Fund. He joined Quilter Cheviot in 2018 and has been a named Fund Manager since 2025. He is also responsible for managing portfolios for private clients, corporates, pensions and trusts and works with colleagues from across the business to enhance the service we provide to our clients. He has completed the CISI Chartered Wealth Management Qualification and the CFA Certificate in ESG Investing. Harry is a Chartered Fellow of the Chartered Institute of Securities and Investments and a member of our Fixed Interest Committee.

Market Review

Global markets delivered a third consecutive year of double-digit gains, with the MSCI All Country World Index returning 14.4%, driven by information technology, financials, and industrials.

After months of speculation the Autumn Budget had an anti-climactic feel, with many measures not set to kick-in for several years, in some cases after the next election. The lion's share of the £26bn in additional taxes will go towards raising Chancellor Rachel Reeves' fiscal headroom to £22bn, more than twice the buffer given in 2024. Disappointingly, the Budget will not provide any boost to growth, according to the Office of Budget Responsibility.

A combination of slowing growth, rising unemployment and cooling inflation led Bank of England policymakers to cut interest rates in December, taking the base rate to 3.75%. This was the sixth cut (by 0.25% each time) since August 2024, although stubbornly high inflation has prevented an even faster pace of cuts. Rate cuts and falling inflation have supported bonds in recent months and underpinned a solid year of returns for this asset class, with lower volatility than equites.

Large-scale government spending plans on defence and infrastructure provided a major tailwind for European stocks, while US equities faced a headwind of increased trade tariffs following Donald Trump's "liberation day" announcement in early April. Although Trump's apparent strategy of escalate-to-de-escalate has seen levies reduced from their most punitive levels, they remain elevated. The weighted applied tariff rate on all US imports has risen to 15.8%, according to the Tax Foundation, compared to a 2.5% effective tariff rate in 2024. Despite the longest US government shutdown on record, the US was the fastest-growing G7 economy in 2025, according to the International Monetary Fund, with solid equities returns.

With growth and earnings outlooks positive the backdrop appears favourable for stocks, particularly in Europe and Emerging Markets. Fixed income continues to offer attractive yields but risks around inflation and the sustainability of government debt levels remain. Credit spreads remain very tight but with some justification given the current benign economic backdrop.

Performance Review

The Sustainable Opportunities Balanced and Growth funds posted strong returns over the year returning **10.3%** and **7.9%**, respectively.

When market performance broadens out that is typically a good environment for our funds which have an average market cap of around $50bn. This trend continued last year and was one of the tailwinds for us, intensifying as the year went on.

Healthcare and medtech companies delivered strong Q3 results and saw a meaningful rebound during the period, as investors shifted capital away from tech into more defensive sectors like healthcare and energy. Thus, a key driver of returns during the

quarter was the allocation to Health & Wellbeing stocks, like **Thermo Fisher**, **Danaher** and **Novartis**. Thermo raised full year guidance, supported by improving demand in pharmaceuticals / biotechnology and new launches of next generation diagnostics products late in the year. Danaher reported strong revenue ahead of analysts' estimates, with strength in life science and biotechnology, supported by operational efficiency. Novartis' fourth quarter results significantly outperformed analysts' estimates, and encouraging news on pipeline and new approved therapies boosted investors' confidence.

After a strong performance from semiconductors, we locked in profits by reducing the holdings in **AMD**, **TSMC** and **Nvidia**. We initiated a new position in **Broadcom**, a market leader across AI chips, AI networking and infrastructure software. We like that Broadcom's networking business is a vital component of AI infrastructure underpinned by strong partnerships with major hyperscalers.

Outlook

Looking ahead, we believe the outlook is normalising, although several risks remain which could lead to lower growth and potentially higher inflation. The chances of a recession are lower than six months ago, so we favour being invested as opposed to having cash.

Despite Trump's anti-renewables policy and rhetoric, the International Energy Agency estimates that 2025 investment in clean energy was double that of fossil fuels, totalling c.$2.2trillion. Sustainable investment themes, such as energy transition and efficiency, are back on the centre stage as the drive towards artificial intelligence continues. Companies in the industrials, utilities, and infrastructure sectors are emerging as beneficiaries of this digital transformation and diversifiers beyond the Magnificent Seven.

Stewardship

As a responsible investor, Quilter Cheviot is committed to its role as steward of our clients' assets to protect and enhance long-term returns – we call this active ownership. As part of our duty, we monitor and engage with companies on matters such as strategy, performance, risk, capital structure, and corporate governance, including culture and remuneration.

Quilter Cheviot votes and engages with companies on environmental, social and governance (ESG) matters and has integrated ESG considerations into our investment process. Our framework for investing responsibly is set and managed by our Responsible Investment team, with the team also developing and undertaking engagement activity alongside the relevant Research Analyst.

In this section of our report, we include some further detail on Quilter Cheviot's approach to being a responsible investor in relation to our Sustainable Opportunities Funds. For a comprehensive view of Quilter Cheviot's approach, please refer to our **website** and our 2025 Voting and Engagement **Report**.

Being an active owner

CDP Investor Signatory
Nature Action 100
30% Club
advance
Climate Action 100+
spring
IIGCC
THE INVESTOR FORUM
UKSIF
PIMFA
TISA

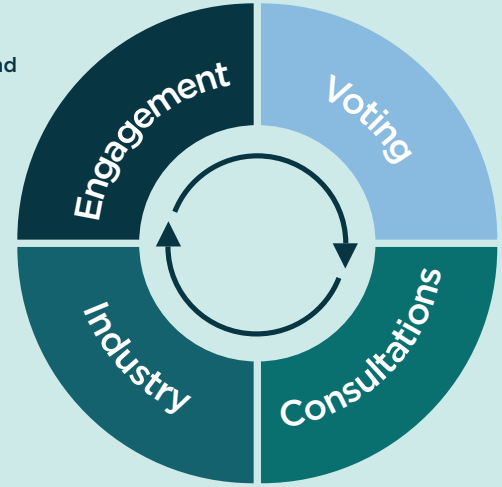
Companies and funds

- Reactive, proactive and business as usual
- Thematic and collaborative

Data providers

Civil Society Organisations and Non-Governmental Organisations

Active members of industry body committees and working groups



In conjunction with the relevant analyst

Informed by our proxy voting service but decision is ours

Quilter and industry responses to FCA consultations

Engagement

This involves speaking directly to the executives and boards of companies and investment trusts about the issues that concern us, with our aim being to understand their approaches to material ESG issues. We focus on concerns that are material to the company or sector being analysed.

Examples of these concerns include best practice behaviour (executive remuneration), board composition (here we look at their approach to diversity in a simple sense but also in terms of diversity of thought), climate change (the extent to which companies link environmental metrics to executive pay or we examine their climate lobbying practices or transition plans).

At Quilter Cheviot we separate engagements into three categories:

1. **Reactive:** bottom up engagements relating to annual general meeting (AGM) or special general meeting (SGM) resolutions, controversial events or policy consultations.

2. **Proactive:** top-down engagements focused on:

   1. Thematic engagements where we have conducted analysis on a specific topic and look to engage with those investments with material exposure.

   2. Collaborative engagements which are driven by one of our three thematic priorities (climate change, human rights and natural capital) and where we will work alongside other investors.

3. **Business as usual:** Where no immediate concerns are identified but is part of a regular catch-up process.

Engagements are run by the Responsible Investment team in conjunction with the relevant Research Analyst. When engaging with a company or investment trust that is (or may potentially be) held by the Sustainable Opportunities Fund, a member of the Sustainable Investment team may also join the engagement.

Sustainable Opportunities Funds 2025 Engagements:

Balanced

15

Growth

18

2025 Voting Activity

Sustainable Opportunities Balanced

We voted at:

We voted on:

779

Individual Resolutions

This represents **100%** of resolutions on which we had voting rights.

In 9 resolutions we voted against management

Sustainable Opportunities Growth

We voted at:

We voted on:

969

Individual Resolutions

This represents **100%** of resolutions on which we had voting rights.

In 18 resolutions we voted against management

Key voting activity

9x votes against electing / re-electing director (management item)

We voted against the re-election of directors owing to executive compensation concerns, the presence of multi-class voting structures and lack of board diversity.

Companies voted on: Novo Nordisk (x2), T-Mobile (x7).

7x votes against management on compensation related items/issues (management item)

We voted against remuneration reports, policies, and financial statements where short and long-term incentive performance metrics lacked transparency and robustness. Additionally, we opposed cases where inflight payments were granted without a compelling rationale, as we view such opacity as detrimental to shareholders. Furthermore, we voted against remuneration reports when companies failed to address shareholder concerns regarding compensation.

Companies voted on: Schneider Electric, Allianz, Equinix, Thermo Fisher Scientific, Intertek, Siemens Healthineers, Palo Alto.

It is important to note that on a number of occasions, having engaged with the relevant company, we did not follow the recommendation of ISS (our proxy voting service provider). We vote on all global* equities (including UK investment trusts). For further information please refer to the Quilter Cheviot **Voting Policy**.

*As far as reasonably possible given the local regulations regarding share voting. Notably, we do not vote where it results in the blocking of trading positions. We also do not currently vote on discretionary holdings (within the global equity and investment trust monitored lists) where we do not have the power of attorney in place. These markets being Switzerland, Sweden, Belgium, Norway. Other infrequent instances of non-vote placement may include where Crest Depositary Interests (CDIs), American Depositary Receipts (ADR) or Global Depositary Receipts (GDR) are held. Ability to vote on these holdings differs on a case-by-case basis.

SUSTAINABLE OPPORTUNITIES

Making A Splash

As climate change and demographic pressures intensify, water scarcity and quality are emerging as defining global challenges. This shift transforms water stewardship from a compliance obligation into a source of competitive advantage. To understand how leading operators are responding we engaged with companies aligned with our 'Water' investment theme to explore emerging trends and solutions in water risk management.

One of the Sustainable Opportunities' five positive investment themes is Water. Companies aligned with this investment theme provide solutions to water quality and scarcity issues. Water is one of the most critical resources for life, society, and the global economy. Yet, it is increasingly under pressure from climate change, population growth, and rising demand across sectors. For companies, water is not just an environmental issue, it is a material business risk. Scarcity, pollution, and infrastructure challenges can disrupt operations, increase costs, and damage reputations. Globally, more than 8.5 trillion gallons of water are lost annually due to leakage: enough water to meet the needs of every person on earth for 22 days. Effective water risk management is therefore essential for long-term resilience and value creation.

Beyond managing their own risks, companies have a vital role to play in driving solutions. Innovation in water efficiency technologies and services can help address systemic challenges such as water scarcity and quality degradation. These solutions not only support sustainable development but also create opportunities for growth and differentiation in a resource-constrained world.

As part of our sustainable investment strategy, we have engaged with water-related companies held in our portfolio to understand how they are addressing these issues, in managing their own risks and, crucially, in innovating for their customers. This thematic engagement reflects our belief that proactive water stewardship is fundamental to building a sustainable and investable future.

SDG Alignment

> *"Anyone who can solve the problems of water will be worthy of two Nobel prizes — one for peace and one for science."*
>
> John F Kennedy

American Water · xylem Let's Solve Water · VEOLIA · WATTS Watts Water Technologies, Inc. · Halma · sabesp

Managing operational water use and efficiency

All companies are increasingly focused on reducing their own operational water footprint, a critical first step in building resilience and credibility. Across our engagements, we saw strong examples of data-driven strategies and innovative technologies delivering tangible results. This included utilities, for which water is a much more significant risk, but also the technology providers, who in many cases modelled best practice themselves, putting their own technologies to work.

Watts Water stood out for its exceptional progress: a 62% reduction in operational water intensity since 2018, far surpassing its original 15% goal. This achievement reflects a rigorous, data-led approach, including real-time monitoring and benchmarking against peers. While early gains came from operational fixes, future improvements will require more complex, capital-intensive changes. Watts has now reset its baseline to 2023 and is targeting a further 3% annual reduction.

American Water is tackling wastage through digital meters and advanced leak detection systems, particularly focused on its non-revenue water which currently accounts for around 20% of its water emissions. Its target to cut overall water use by 15% is ambitious, and success will hinge on regulatory support and customer engagement.

SABESP, operating in Brazil's challenging climate, has adopted a multi-pronged strategy. Night-time pressure reduction has helped curb leakage, while AI-powered verification and a "Report a Leak" app accelerate repairs. The company is replacing 4.4 million water meters with smart versions to enable early detection. SABESP also leverages over a century of meteorological data to anticipate rainfall variability, a growing challenge as climate change drives erratic precipitation patterns.

Building resilient infrastructure

Operational efficiency alone is not enough; resilience is critical as water stress intensifies and infrastructure ages. Veolia highlighted that seven regions in England could face severe water stress by 2030, a stark reminder of the urgency even for our own, typically wet, island.

SABESP has embedded resilience into its Water Supply Master Plan, developed after Brazil's 2014-2015 drought. Measures include interconnecting reservoirs for flexible transfers, adding backup sources, and advancing indirect drinkable water reuse by treating and returning wastewater to reservoirs.

American Water, while estimating only ~3% exposed to high-stress regions, is investing heavily in climate resilience. Its $40-42 billion decade-long infrastructure plan includes flood defences, reservoir construction, and even a desalination plant. These investments are essential to future-proof systems, though the scale and pace of delivery remain critical.

Importantly, while investment is significant, this is critical long-life infrastructure that will depreciate over multiple decades. One can draw a clear distinction between this capital expenditure and the (arguably more speculative) currently much discussed data centre investment that will i) typically depreciate over a much shorter time span and ii) has less direct social benefit.

Forever Chemicals

Per- and polyfluoroalkyl substances (PFAS) have been commonly used in industrial manufacturing to create water repellent and grease resistant materials. Also known as “forever chemicals” they have been observed to persist in water, bio-accumulate in plants & animals and are a growing health concern, prompting tighter regulations in the US (e.g. the new contaminant limit on drinking water) and EU. All companies engaged recognise PFAS as a rising risk. For some this is a growing opportunity, with providers Xylem, Watts Water, and Veolia proactively innovating PFAS detection and filtration solutions. American Water and SABESP, on the other hand, focus on regulatory compliance readiness. SABESP takes a more cautious approach due to its local context and primary focus on rolling out universal water access.

Veolia has significant operations in commercial PFAS remediation in Europe. Its proprietary treatment suite has already processed over 90 billion litres of contaminated water. The company deploys a combination of activated carbon, ozonation, and advanced membrane technologies tailored to different PFAS molecules, supporting clients in meeting tightening discharge limits across Europe and North America. Veolia’s PFAS solutions are embedded in its broader industrial wastewater treatment systems, designed for on-site reuse and circular water management.

Watts Water is expanding its filtration product line to address PFAS removal, particularly in high-risk geographies such as Arizona and northern Italy. The company confirmed it is developing PFAS-targeted filtration systems as part of its commercial offering. Watts views PFAS as a commercial opportunity and is aligning its innovation roadmap with anticipated regulatory shifts.

Xylem is preparing for increased demand for PFAS-related solutions, particularly through its Evoqua Water Technologies acquisition. Evoqua’s portfolio includes ion exchange resins and advanced filtration systems capable of targeting PFAS and other emerging contaminants. Xylem’s integration of Evoqua’s technologies into its broader water treatment and reuse systems positions it well for future regulatory-driven demand. The company estimates that 80-90% of wastewater can be cost-effectively recycled, and its hardware and digital platforms (e.g. Xylem Vue) are being adapted to support PFAS detection.

American Water and **SABESP** are focused on regulatory compliance. American Water is preparing for U.S. Environmental Protection Agency rules by planning filtration upgrades, while SABESP is monitoring global PFAS developments but prioritises universal water access in Brazil. Where regulation on PFAS levels is tightening (like the US), although utilities will be required to meet water quality standards, they are not legally liable for the pollution caused by legacy industrial processes.

Innovating for Customers

Of particular importance to our sustainable investment strategy is the innovation that water technologies are undertaking to provide a range of solutions that help their customers better manage water risks.

Veolia is deploying Automated Meter Readers (AMRs) to give clients real-time visibility of water flow, enabling rapid leak detection and efficiency gains. Its expertise in industrial wastewater treatment is another differentiator: tailored, on-site systems using advanced membranes and bioprocesses, allow industries to reuse water and minimise discharge. Veolia’s broad technology suite, from reverse osmosis to digital process control, positions it as a key partner for businesses in water-stressed regions.

Halma helped Oak Park, a village within a Chicago suburb, to identify and fix 29 previously undetectable leaks in the first month of piloting ‘acoustic loggers’. These devices listen for the tell-tale noise of a water leak (similar to that of a flute) and automatically issue alerts. The partnership is playing a crucial role in facilitating Oak Park’s target to save 175 million gallons of water loss annually, equivalent to 265 Olympic sized swimming pools.

Xylem has helped reduce over 3.5 billion cubic meters of non-revenue water since 2019 through smart metering, leak detection, and pressure management. Its Xylem Vue digital platform enables real-time monitoring and has supported cities like Monterrey and Mexico City in progressing toward water neutrality. In St. Petersburg, Florida, Xylem’s smart meters maintained connectivity during a hurricane, enabling rapid repairs, a powerful example of resilience through technology. The company is also advancing energy-efficient hardware, such as hybrid electric pumps that cut fuel use and emissions, linking water stewardship with broader climate goals.

Watts Water is commercialising innovations developed internally, such as its Nexa platform, a building water management system that optimises consumption and detects leaks. Initially trialled within its own operational sites, Nexa is now being rolled out to commercial customers. We saw this as an excellent example of the link between sustainability goals and commercial benefit. Watts is also developing solutions for water-intensive sectors like data centres, aiming to enable closed-loop cooling systems and reduce freshwater demand.

Final Thoughts

Across the sector, the trend is clear: data-driven solutions, circular water systems, and energy-efficient technologies are becoming central to both risk management and growth strategies. Companies that combine operational excellence with customer-focused innovation are best positioned to thrive in a resource-constrained world.

Water is not just a resource, it is a foundation for economic stability, public health, and environmental resilience. As climate change accelerates and demographic changes exacerbate an imbalance in water supply and demand, the risks facing water systems are intensifying. Our engagement shows that leading companies are responding with a dual approach: strengthening their own operations and infrastructure while innovating to help customers use water more efficiently and sustainably.

The progress we've seen, from smart metering and AI-driven leak detection to advanced reuse technologies and energy-efficient hardware, demonstrates that water stewardship is evolving from a compliance exercise into a source of competitive advantage. Companies that invest early in resilience and innovation will not only mitigate risk but may unlock new growth opportunities in a world where water quality and scarcity is becoming a defining challenge.

Toby Rowe
Sustainable Investment Specialist

Eleni Makri Larranaga
Sustainable Investment Associate

Greg Kearney
Senior Responsible Investment Analyst

RESPONSIBLE INVESTMENT

Greening algorithms:

Artificial Intelligence and emissions

This research was prepared by our Responsible Investment team in conjunction with Quilter Cheviot's Technology Research Analyst. The engagement focused on the most relevant companies from across the Quilter Cheviot monitored universe, beyond those that are considered investable for the Sustainable Opportunities Funds. As such, some of the companies referenced within this article (such as Amazon) are not held by the Funds.

Across Quilter we have identified three thematic engagement priorities. This is part of our climate change theme.

Climate change is the defining issue of our time and we are at a pivotal moment. From shifting weather patterns that threaten food production, to rising sea levels that increase the risk of catastrophic flooding, the impacts of climate change are global in scope and unprecedented in scale. Without drastic action today, adapting to these impacts in the future will be more difficult and costly.

SDG Alignment

> *"AI's impact on carbon emissions is a complex issue, with AI both contributing to and potentially mitigating climate change."*
>
> AI overview, Google

Introduction

The world is set to exceed the target global temperature increase of 1.5°C above pre-industrial levels outlined in the 2015 Paris Climate Agreement. In this context, the acceleration of artificial intelligence (AI) use and ensuing data centre growth has raised further concerns over climate action. Over 100 countries (plus the European Union) have committed to achieving net zero emissions. Understanding the implications of AI proliferation is essential.

From a shareholder perspective, some companies pivotal to AI expansion, particularly cloud hyperscalers[1] like Amazon, Alphabet, and Microsoft, have set ambitious decarbonisation plans. For example, Microsoft aims to be carbon negative by 2030, and Alphabet targets net zero emissions across all operations and value-chain by 2030. These goals are challenged by the energy demands of AI transformation.

While not all data centre activity is AI related, running complex AI workloads like large language models (LLMs) used in generative AI applications is energy-intensive, impacting both server equipment power and cooling requirements. AI solutions' increased complexity raises the power needs for manufacturing the smaller, intricate semiconductors used in servers and produced by companies like TSMC. Emissions from data centres are already estimated at around 3% of the global total, comparable to those from the aviation industry. The energy requirements to train and use AI models are not equal, some specific models like Intel's TinyBERT, which retrieves answers from text, consumes a relatively small amount of power — about 0.06 watt-hours per 1,000 queries (equivalent to running an LED bulb for 20 seconds). At the opposite end of the scale, LLMs such as OpenAI's GPT-4 or DeepSeek, need thousands of times more energy for a similar query. The result has been compared to turning on stadium floodlights to look for your keys. As generative AI solutions develop it is likely that more specific task-based models develop for customised needs.

Understanding AI's net impact on emissions is complex. While data centre expansion increases emissions, AI solutions can enable wider economic efficiencies and innovations that reduce emissions. For instance, AI services aid in designing next-

1 i.e. a large cloud service provider

generation solar panels, optimising power grid distribution, and reducing the carbon intensity of cement production. By understanding the interplay between technological advancements, regulatory landscapes, and energy demand dynamics, investors can navigate the evolving landscape and capitalise on emerging opportunities.

Our engagement

From a materiality perspective we identified the companies within our centrally monitored universe with the most significant exposure to AI. Companies like Microsoft and Amazon are at the forefront of developments, driving innovation while grappling with the challenges of sustainability. Activities at companies like AMSL, ASMI, TSMC, Infineon and Equinix are also shaping the wider AI ecosystem and its emissions profile, where advances in hardware technology are crucial for addressing AI's energy demands. Companies like these are also exploring AI-optimised cooling, and smarter data centre design and operations to limit AI's energy consumption. This is a nuanced landscape and despite highlighting the above tensions, AI's role in the climate transition is increasingly recognised as a critical driver of growth and innovation. Companies must balance the benefits of providing and using AI solutions with current transition commitments. We engaged the below companies to better understand this topic as well as explore the opportunities and the management of the risks related to the emissions implications of AI service growth. We managed to hold some form of dialogue with all the above companies, apart from Microsoft who did not respond to our request to engage.

amazon ASML tsmc ASM EQUINIX Infineon SIEMENS

What is AI?

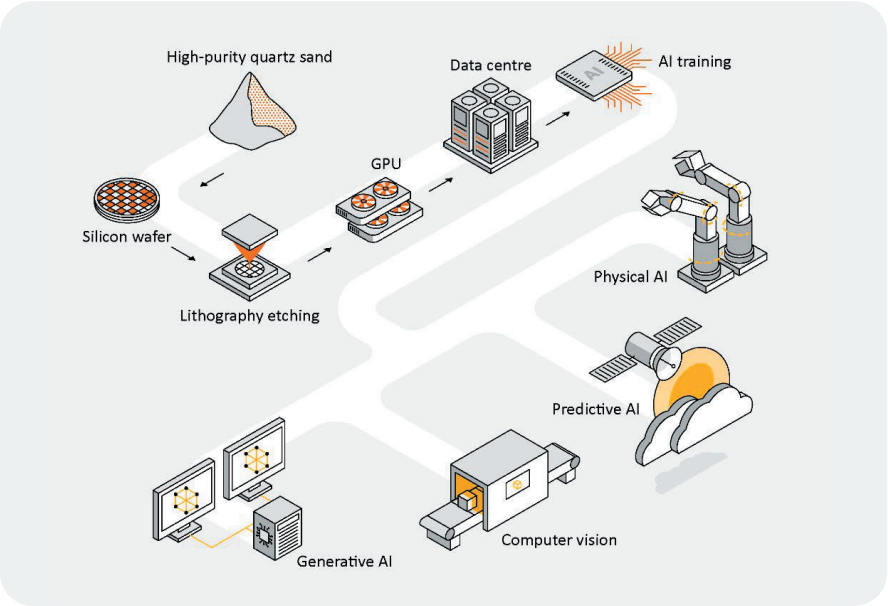
There is no universal definition of artificial intelligence, but it can be broadly defined as the scientific field dedicated to creating machines capable of performing tasks that usually require human intelligence. AI has evolved from traditional computational methods relying on programmed instructions to systems that learn from data to identify patterns, make predictions, and execute actions. These systems continually improve through training.

This thematic engagement focuses on the emissions implications of generative AI expansion, but it is important to note that different AI processes perform a myriad of different tasks and today's AI systems can be classified under the below frequently used terms:

- **Generative AI**: Refers to applications that focus on generating new content, such as text, images, audio, and video using language models (and models using non-text forms).
- **Predictive AI**: Predictive AI employs models to forecast future outcomes. It finds applications in various fields such as scientific modelling, weather forecasting, predictive maintenance of energy infrastructure, and finance.
- **Computer vision**: Enables machines to interpret visual data-like images and videos, mimicking human vision. Using deep learning and machine learning, it performs tasks such as object detection, facial recognition, image classification, and interpretation. It is used in self-driving cars, medical imaging, security, and augmented reality.
- **Physical AI**: Systems that interact with the real world, like autonomous cars, robots, and drones. Unlike traditional industrial robots which are programmed to perform single tasks in tightly controlled environments, modern AI systems can learn from their environment and adapt to dynamic and unpredictable situations[2].

2 Energy and AI: IEA Special report,' International Energy Agency, April 2025

IEA AI infrastructure and types of applications (AI is supported by complex supply chains)[3]



Key findings

Grand ambitions

Encouragingly all companies engaged had ambitious climate plans. Throughout the value chain, from semiconductor equipment manufacturers like ASML to large cloud service providers like Amazon - all had net zero emissions goals, with most targeting a date before 2050 covering all relevant emissions. For example, Amazon's Climate Pledge commits the company to reaching net-zero carbon emissions by 2040 and Equinix, a provider of data centre infrastructure, aims to achieve carbon 'neutrality' by 2030 (a plan validated by the Science Based Target Initiative).

For many companies who are upstream in the AI value chain (particularly semiconductor/equipment manufacturers) Scope 3 indirect emissions[4] are a material part of the overall picture. We observed some market leading programs from the companies like ASML, ASMI, Siemens and TSMC in attempting to reduce emissions within their supply chains. ASMI echoes others requiring participation in the external Carbon Disclosure Project (CDP) questionnaire program from suppliers, with 88% of critical & strategic suppliers now reporting this data. The company is also partnering with major players in the semiconductor hyperscale space (including Google and HP) through the Catalyze program. The initiative aims to advance the adoption of renewable electricity throughout the global semiconductor value chain by allowing suppliers and smaller companies to join advance power purchase agreements (usually beyond their resourcing) to stimulate renewable energy demand and decarbonise supply chains. For many AI upstream companies, over 90% of total emissions fall under Scope 3, the accelerated adoption of renewable electricity throughout the value chain emerges as a crucial step forward.

These efforts to take responsibility for indirect emissions and influence the wider supply chain is potentially transformative for overall AI decarbonisation. We have already witnessed the historic power of deliberate procurement policy, when large cloud service companies like Microsoft spearheaded corporate power purchase agreement (PPAs) shortly after the turn of the millennium. These early, but expensive, contracts were vital for renewable energy technologies to reach scale and precipitated a steep cost decline for wind and solar power.

Cloud service providers and data centre infrastructure companies have seen material improvements in terms of data centre efficiency, a key component of the emissions efficiency in providing cloud and AI solutions. In 2024 AWS data centres (Amazon's cloud services business) reported a global 'power use effectiveness' (PUE) measure of 1.15. PUE is a metric that measures how efficiently a data centre uses energy. A PUE score of 1.0 is considered perfect, indicating that all energy used by the facility goes directly to computing. The best performing AWS site was in Europe with a PUE of 1.04[5].

3 Image from 'Energy and AI: IEA Special report,' International Energy Agency, April 2025

4 Scope 3 emissions are all indirect emissions, not included in Scope 2 (emissions from power use), that occur in the value chain. These could be upstream or downstream and those emissions from supplier, customers and other third parties. These are separate from Scope 1 emissions which relate to those emissions from direct operations.

5 Amazon 2023 Sustainability Report

Companies that matter are struggling to meet targets

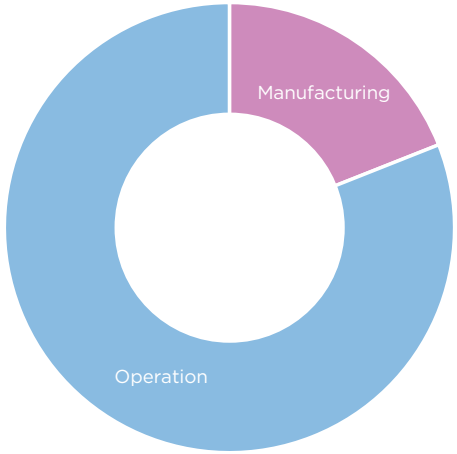
Absolute decarbonisation performance is, however, mixed and highlights the difficulties many the largest providers of AI solutions are facing in expanding business activities but reducing overall emissions. For Amazon, in 2023 (the most recent comprehensive data available), year on year carbon intensity (grams of CO2 per $ sales) was down 13% but since the baseline of 2019 both Scope 1 operational emissions and Scope 3 indirect emissions increased on an absolute basis (by 250% and 30% respectively).

A similar problem is being faced by Microsoft, which experienced a 29% increase in total emissions since 2020[6]. Much of the rise was driven by the construction of new data centres partly prompted by the provision of generative AI solutions. The embedded emissions arise from the carbon in construction materials such as cement, glass, and steel, as well as in hardware components like semiconductors and servers. This build out of data centres (and therefore emissions spike) could be temporary but once the sites are operational, we could see a more permanent increase in direct power related emissions (Scope 2).

For large cloud service providers, data centre infrastructure companies and AI related manufacturers it is worth noting that Scope 2 emissions (related to power consumption) have declined in most cases over the past five years. Many including Equinix and Amazon have already met targets related to low carbon energy consumption. A significant part of climate transition planning has been to match all the electricity consumed by global operations with 100% renewable energy. This has mostly been achieved via renewable energy certificates (RECs) and power purchase agreements (PPAs). RECs are issued by power generators every time they add one megawatt hour of renewable energy to the grid. PPAs are a contractual obligation to buy a certain amount of electricity from a specified renewable energy generator (or specific project). PPAs are typically longer-term (over 10 years) and the guaranteed revenue stream can be critical in underwriting the funding required to expand renewable energy capacity. The evidence supporting 'additionality' of RECs has come into question. Often the prices of certificates are too low and uncertain to influence significant renewable energy investment[7]. This has led criticism that those relying heavily on RECs as a structural part of climate transition plans are overstating emissions reductions, as most RECs may not lead to additional renewable energy or emissions reductions. While PPAs have played a historic role in catalysing renewable power scaling, a reliance on RECs may be artificially reducing emissions tallies.

While upstream companies like ASML, ASMI, Siemens and Infineon are on course to meet ambitious decarbonisation plans, most lifecycle emissions related to AI services are embedded in construction and power demands of the data centres operated by large cloud service companies. For the companies that matter, emissions are travelling in the wrong direction.

Data centre server electricity demand



Manufacturing amounts to less than 20% of total life-cycle electricity demand of data centre servers. The complex semiconductors used for AI solutions require even more energy to power servers. 'Operation' presumes a server lifetime of five years[8].

6 Microsoft 2024 Sustainability Report
7 'Most companies buying RECs aren't actually reducing emissions,' The Conversation, June 2022
8 IEA analysis based on Garcia Bardon, et al. (2021), Boavizta (2021), and Dell (2019)

Hunt for clean energy

A significant portion of the Scope 2 power emissions reductions required by value chain actors like Infineon, ASML and ASMI can be achieved through smaller localised decarbonisation plans. Levers for achieving reductions include decreased use of natural gas consumption through energy efficiency measures (e.g. reusing waste heat from factories for office conditioning), electrifying main industrial locations and increasing solar capacity on premises. For companies providing AI cloud services, data centre infrastructure or even pure-play semiconductor manufacturing (like TSMC) the energy requirements dwarf localised solutions. In 2023 TSMC energy consumption accounted for almost 10% of electricity consumption in Taiwan[9]. For Equinix, a brand-new data centre may require up to 0.5GW of highly reliable power, so rooftop solar or wind turbines will not be adequate.

The power needs for AI hyperscalers are immense and increasingly concentrated among a few key players. By 2029, cloud service providers like AWS, Google, and Microsoft are projected to handle nearly 60% of global data centre capacity, up from around 20% in 2017[10]. Despite ongoing improvements in energy efficiency, the rapid expansion of data centres and power-intensive AI activities is challenging their net zero commitments.

In response, companies like Amazon are taking bold steps to stay on track. In 2024, Amazon invested over $1 billion in three nuclear energy agreements to support new Small Modular Reactors (SMRs). These advanced nuclear reactors have a smaller footprint and quicker build times, making them suited for providing carbon-free energy sooner. Amazon also partnered with Talen Energy to co-locate a data centre next to an existing nuclear facility in Pennsylvania, directly powering it with low-carbon energy and extending the reactor's life.

Microsoft is also investing in the previously obsolete Three Mile Island nuclear power plant, recognizing the importance of utilising existing facilities, especially as electricity grids face increasing strain. In the US, connecting new power generation assets to the grid can take nearly a decade, highlighting the need for innovative solutions.

Questions around the additionality of RECs aside, in 2025, Amazon was the largest corporate purchaser of renewable energy for the fifth year in a row. By Q4 2024, the company had supported over 600 wind and solar projects globally, including 40 utility-scale projects. Notably, Amazon targets renewable projects on carbon-intensive grids, significantly impacting emissions reduction. For instance, Amazon's nine utility-scale solar and wind farms in India, a country heavily reliant on fossil fuels, aim to avoid 55 times more carbon emissions annually compared to similar projects in Sweden, which has a highly decarbonised grid. In July 2024, Amazon announced it had achieved 100% renewable energy for its global operations, seven years ahead of its 2030 goal. The tech sector accounted for 92% of new clean energy purchases in the US in 2024[11].

Despite the impressive clean energy investments touted by many technology giants, the reality on the ground is more complex. The actual electricity powering today's sprawling data centres largely comes from national grids still dominated by gas and, to a lesser extent, coal. The unique energy appetite of generative AI—surging unpredictably during training and remaining consistently high during operation—doesn't align well with the variable rhythms of solar and wind. Instead, these demanding systems crave reliable, round-the-clock energy, typically supplied by fossil fuels. As a result, the rapid expansion of data centre infrastructure has sparked not just a race to secure renewable power credits, but also a notable resurgence in gas-fired energy projects designed to keep pace with AI's power needs[12].

Upstream innovation: supportive ecosystem actors

Within the AI value chain, European companies are showing strong dedication to product innovation aimed at reducing emissions, which also cuts energy costs.

ASML, a semiconductor equipment manufacturer is focused on developing energy-efficient hardware enhancements, such as improvements to the extreme ultraviolet (EUV) lithography systems. EUV lithography enables the printing of the most advanced and small chips. Cheaper, more energy efficient, deep ultraviolet (DUV) lithography systems are the backbone of the semiconductor industry and the majority of ASML

9 'Energy and AI: IEA Special report,' International Energy Agency, April 2025
10 'Hyperscale operators and colocation continue to drive huge changes in data center capacity trends', Synergy Research Group
11 'We still don't know how much energy AI consumes,' Financial Times, May 2025
12 'Inside the AI race: can data centres every truly be green?', Financial Times, August 2025

sales, but EUV technology will enable the move to smaller 3 nanometre[13] and even 1.6 nanometre semiconductors. EUV technology is often compared to a precision scalpel, capable of carving out the finest features, while DUV can be compared to a skilled artist's brush which is versatile and reliable, but with limitations in creating the smallest details[14]. Despite EUV's higher energy demands, ASML has managed to reduce power consumption of EUV machines by 54% since 2018.

EUV Lithography Energy Requirements (ASML 2024 Annual Report)

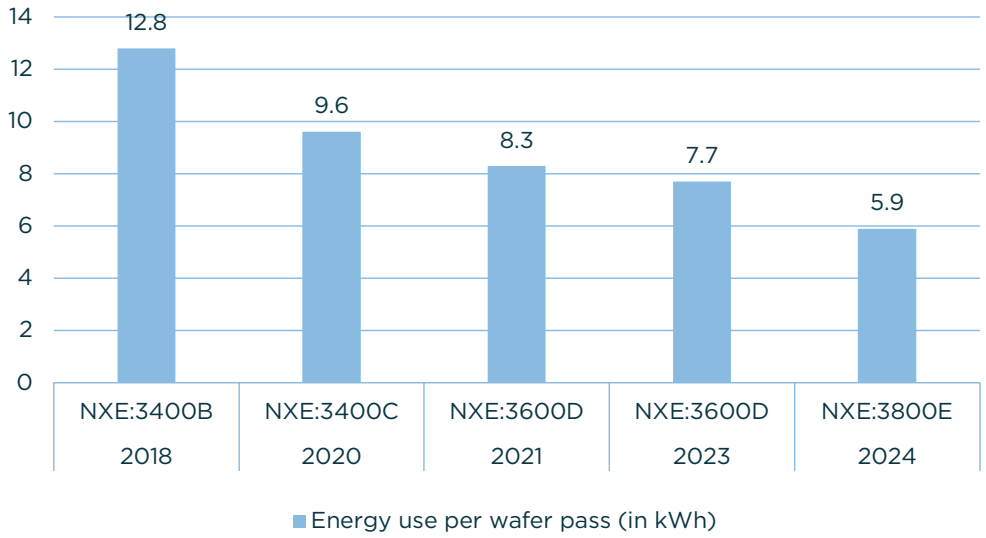


Chart showing the 54% reduction in energy required to run successive models of ASML's EUV lithography machines (essential equipment for manufacturing the most advanced semiconductors used in AI applications).

ASMI designs and manufactures semiconductor wafer processing equipment. The company is a leader in deposition technology and advanced logic foundry. In other words, the processes of adding layers of material onto a semiconductor wafer and making advanced circuits that are crucial to the functioning of AI chips and other advanced computing devices. ASMI is focused on growth areas, such as high-bandwidth memory and AI demand. In summary the company is enabling more energy efficient chips to be produced more energy efficiently. Advanced deposition tools will also be critical enablers of smaller more efficient semiconductors that will play a key role in AI expansion.

Infineon produces power supply units (PSU) for data centres and AI edge hardware, projecting significant revenue growth in these areas. The PSUs improve energy efficiency in data centres, while AI edge solutions localise processing, reducing energy intensity and latency — vital for applications like self-driving vehicles that cannot afford to be hampered by potential delays from cloud-based AI decision making.

Though many of the companies within the AI 'ecosystem' have a limited direct impact on the large energy requirements needed to train and utilise AI models, the focus on energy-efficient product innovation will help reduce overall power consumption. As highlighted above, companies like ASML and ASMI are dedicated to reducing Scope 3 emissions in supply chains and product usage, amplifying decarbonisation in their operations through collaboration.

Potential emissions savings from AI

Is the expansion of AI negative for hyperscalers' transition plans but positive for the world?

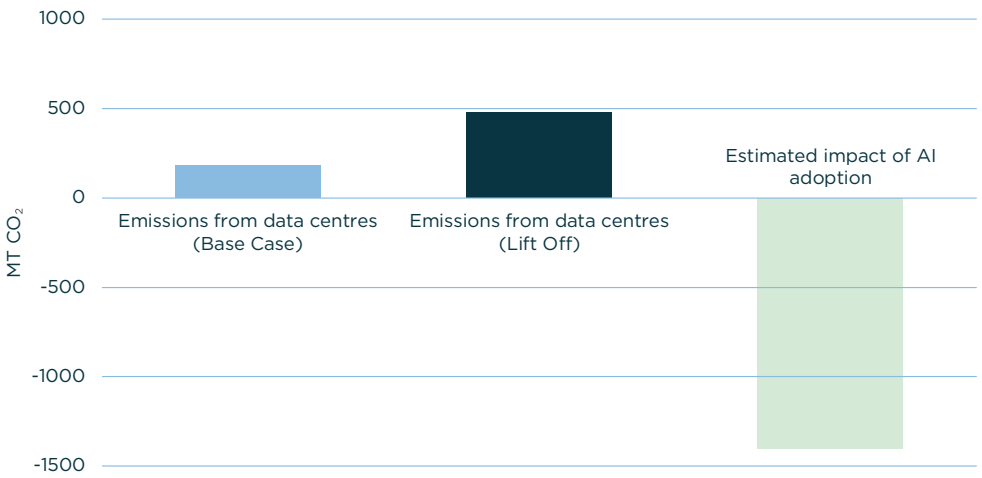
AI applications in the energy sector are being used for a variety of optimisations, many of which will lead to emissions reductions. Examples of use cases include improved methane detection to identify leaks, design assistance for next generation solar panels, optimising fuel mix inputs for cement manufacturers and optimising building energy consumption (i.e. heating, ventilation and air conditioning controls). Google maps, an AI dependent technology, is another good example of a service that has had a significant real world impact in optimising vehicle journeys and reducing associated traffic related emissions. The IEA predicts that widespread adoption of AI technology by 2035 could lead to global emissions reductions that would be three times larger than total data centre emissions (even after accounting for a significant increase in such facilities)[15].

13 A nanometre (nm) is a unit of length in the metric system, equal to one billionth of a metre (0.000000001 metre)

14 www.girolino.com/euv-vs-duv-the-future-of-chip-manufacturing/

15 'Energy and AI: IEA Special report,' International Energy Agency, April 2025

Projections of emissions growth from data centres relative to the emissions savings of AI adoption by 2035



The first two columns of the chart above show the IEA's projected increase in data centre emissions under both a steady expansion (Base Case) and rapid expansion (Lift Off) scenarios. Conversely the third column shows that in the IEA's widespread adoption case, AI impacts could materially improve global emissions trajectories in end-use sectors by 2035. This chart does not include potential 'rebound' effects which could negate some emissions savings. The effects include higher energy consumption as AI related services shift demand away areas like public transport towards higher levels of autonomous car travel.[16]

Under a widespread adoption scenario, large companies should benefit from lower costs by embedding AI into the automation of IT services, call centres and sales functions[17]. On engaging Amazon, we learned that the company commissioned a study by Accenture demonstrating that an effective way to reduce carbon emissions is by moving IT workloads from on-premises infrastructure to AWS data centres. We approach this study with an appropriate level of critical assessment, but the point holds true more broadly for businesses shifting IT and AI workloads. Given the advanced level of energy and cooling optimisation at larger datacentres, the study[18] estimates AWS's infrastructure is up to 4.1 times more efficient than on-premises set-ups, and when workloads are optimised on AWS, the associated carbon footprint can be reduced by up to 99%. On-premises refers to organisations running hardware and software within their own physical space, and 85% of global IT spend by organisations remains on-premises. As AI workloads become more complex and data-intensive, they will require new levels of performance from systems that complete millions of calculations every second, along with memory, storage, and networking infrastructure. This requires energy and has a corresponding carbon footprint.

Most of the companies targeted as part our engagement focused on the scaling of AI, particularly generative AI (using large language models) and data centre expansion. However, the use of AI in industrial applications, as pioneered by several leading industrial sector companies, is changing the way manufacturing facilities operate, more often using smaller tailored private models. This is in the field of generative AI but also predicative industrial AI applications, demonstrating that while the energy requirements (and implicate emissions) are accumulating in some parts of the economy, in others AI solutions are being used to rapidly improve process efficiency and energy management.

AI solutions are central to Siemens' strategy, with over 2,000 AI engineers and numerous patents. Siemens uses AI to improve predictive maintenance and energy management, such as simulating train performance in extreme environments and developing AI-assisted cooling systems for data centres. The Siemens Industrial Copilot, developed with Microsoft, enables natural language communication with machines, enhancing human-machine interaction. In its Chengdu factory, Siemens has combined predictive maintenance with energy-saving measures, increasing energy efficiency by 25% and achieving site-level net-zero operations for Scope 1 and 2 emissions seven years ahead of target. A digital twin[19] of the facility, created using Siemens NX software, continues to optimise operations. The success of these AI-driven improvements has led Siemens to offer commercial digital twin software solutions.

16 'Energy and AI: IEA Special report,' International Energy Agency, April 2025
17 'What to buy if AI is transformative,' Financial Times, May 2025
18 "Moving onto The AWS Cloud Reduces Carbon Emissions," Accenture
19 A digital twin is a virtual model that mirrors a physical object, process, or system, using real-time data and simulation to provide insights and predictions.

Summary

We have been impressed by the ambitions and achievements of many companies engaged throughout the AI value chain. In most cases demonstrating the quality and commitment of underlying investee companies. Upstream value chain actors have a strong focus on energy efficient product innovation, inspired by client demand opportunities and internal corporate climate transition plans.

Further downstream, it is increasingly clear that the ambitions of the cloud hyperscalers' climate targets are facing heightened headwinds as demand for cloud-based services grow. This has been exacerbated by the scaling of demand for AI solutions and its implicit increased energy requirements. Accelerated action will be needed to meet the company goals, including more support for low carbon energy procurement that materially reduces emissions, rather than a heavy reliance of renewable energy certificates (RECs). Efforts will need take place at a company level but also require a supportive local and national policy environment where data centres are located. It will be crucial to monitor if emissions remain elevated or retreat as demand stabilises, data centre operations are further optimised, and more meaningful low carbon sources of energy are secured.

It is important to note, that some of the energy investments proposed by large clouds service providers are also speculative. Despite the fanfare given to small modular nuclear reactors (SMRs), none are yet operational. Alphabet recently signed a PPA with a nuclear fusion provider, a technology which is yet unproven. While we welcome the foresight, present challenges demand a focus on today's technology solutions if climate targets are to be achieved.

While company emissions trajectories are under strain and will be monitored by investors, the potentially transformative opportunity should not be ignored. We are seeing companies already using and commercialising AI related products to great effect. Many in both technology and industrial sector applications are being used to optimise energy use and drive down emissions. The aggregate effect could outweigh the impact of a well-managed scaling of data centre expansion. None of this is certain, and all is to play for – but there is a pathway to an elusive 'cake and eat it' scenario.

Greg Kearney
Senior Responsible Investment Analyst

Ben Barringer
Head of Technology Research and Investment Strategist

Nicholas Omale
Responsible Investment Analyst

Quilter Cheviot Collaborative Engagement

Climate Action 100+

Quilter Cheviot is an investor participant of Climate Action 100+ and continued the work in 2025. Climate Action 100+ is an investor led initiative to ensure the world's largest corporate greenhouse gas emitters take necessary action on climate change. Being an active participant in collaborative engagement initiatives is an important element of our overall stewardship agenda and we are pleased to be a member of the National Grid and Trane Technologies engagement working groups.

IIGCC External Managers Working Group

Quilter Cheviot is an active member of this working group which was established in 2024 to support ongoing net zero alignment work being undertaken for use by IIGCC members. The working group meets on a regular basis to develop resources relating to the use of external fund managers when attempting to align portfolios with the goals of the Paris Agreement. The initial focus will be creating target-setting and implementation guidance for when investors use external fund managers to achieve their individual investment objectives. The group has just issued a first version of investor guidance on applying a climate alignment framework to externally managed funds, which is now open for public consultation.

Wealth Managers for Climate Action

Quilter Cheviot is a member of the Wealth Managers on Climate Group (WMC), a collection of UK wealth managers working together to support climate action in our investments. The group was convened as a forum specifically for wealth managers, who often have different operating constraints and opportunities to larger asset managers. The purpose of the group is for managers to effectively and collaboratively engage on sustainability-related topics, especially the climate. Recent projects of the group have included compiling and adopting a standard climate questionnaire for externally managed fund annual RFI (Request for Information) exercises, and climate framework consultations with IIGCC and ShareAction.

Net Zero Engagement Initiative

The Net Zero Engagement Initiative aims to enable net portfolio alignment by supporting investor engagement and seeking the disclosures investors need from companies to determine if they are aligned with net zero. This engagement will therefore seek Net Zero Investment Framework (NZIF)-aligned transition plans from companies. We are part of the working groups for two target companies, Tesco and Siemens.

Quilter Cheviot Collaborative Engagement

Nature Action 100

Quilter Cheviot is a member of Nature Action 100. This is a global investor engagement initiative focused on driving greater corporate ambition and action to reverse nature and biodiversity loss. The initiative engages companies in key sectors that are deemed to be systemically important in reversing nature and biodiversity loss by 2030. Quilter Cheviot is part of the engagement working group for a global diversified mining company.

Spring

Spring is a PRI stewardship initiative for nature, addressing the systemic risks of biodiversity loss to protect the long-term interests of investors. Through this, the initiative aims to contribute to the global goal of halting and reversing biodiversity loss by 2030. Spring seeks to enhance corporate practices, ultimately generating positive, real-world outcomes, while protecting and enhancing investment returns. In its first phase, Spring will focus on tackling forest loss and land degradation in priority geographies and encouraging responsible practices in corporate political engagement. We are an active participant in engagement groups for Reckitt Benckiser Group plc and BHP.

30% Club UK Investor Group: 'Fix The Exec'

Quilter Cheviot is a member of the UK investor branch of the 30% Club, a campaign to boost the number of women in board seats and executive leadership at listed companies in the UK. More specifically, we are also member of the 'Fix the Exec' working group which will engage some of the worst performing listed companies in the UK in terms of the representation of women at executive and senior management level.

Advance

Quilter Cheviot is an active member of the working group for Anglo American where we are working with other investors to advance progress on human rights through stewardship.

Quilter Cheviot Collaborative Engagement

Find It, Fix It, Prevent It

Quilter Cheviot is a member of the working group engaging Persimmon on modern slavery risk management and performance. Engagement with the company is ongoing.

Investor Forum

The Investor Forum is a practitioner-led membership organisation that aims to enhance stewardship practices in the UK and facilitate corporate dialogue. We regularly participate in investor feedback on stewardship related topics, such as investment trust board expectations, and utilise the forum to join group dialogues with individual company board members. In 2025, we participated in several group engagements including dialogues with the chairs of Shell and Prudential. At an event convened by the Investor Forum in December, we presented Quilter Cheviot's responsible investment strategy and highlighted ESG performance expectations for a range of FTSE 250 companies. This was a useful way to engage with a broad corporate audience and to communicate our view of UK company best practice on topics like board composition and remuneration.

AIC – Investor Forum

The Association of Investment Companies (AIC) was founded in 1932 to represent investment trusts. The organisation's mission is to support and promote the long-term benefits of investment companies by engaging with members, investors, and the wider financial community with a view for closed-ended investment companies to be understood and considered by every investor. We are an active participant in their quarterly meetings and attend industry events.

This is a summary of collaborative engagement activity undertaken by Quilter Cheviot's Responsible Investment team. Some of the engagement initiatives relate to sectors and specific companies outside of our Sustainable Investment Universe. For example the Funds do not invest in Anglo American, BHP or Tesco.

Climate Considerations

While the Sustainable Opportunities Funds themselves are not managed to defined greenhouse gas emission targets or, for example, a 1.5°C portfolio temperature increase target, we assess the climate impact of investee companies and do not invest in those that perform poorly. This includes considering both:

i) Whether a company operates within a high impact sector (including mining, transport, heavy construction & industrial engineering)

ii) Positive steps taken by the company to minimise any environmental impact.

We usually avoid companies from high impact sectors but in certain rare cases we may invest if it had an above average approach to minimising its negative impact. Positive steps that we look for include having an independently approved Science Based Target and having a detailed, transparent, and credible climate action plan.

Portfolio Carbon Exposure

Across the Sustainable Opportunities Funds, carbon exposure tends to be concentrated in a small number of higher-emitting companies. This is typically companies within the Industrials sector, to which the Funds have a large allocation. Such companies are often selected for the positive contribution that they make and their role in providing sustainable solutions linked to our five investment themes. Examples include companies involved in waste management, sustainable materials, and more efficient forms of transport.

For example, one of the Funds' higher-emitting companies is Union Pacific, the US rail transportation network operator. Rail transport is widely regarded as a more sustainable alternative to long-haul road or air freight, due to its significantly lower emissions per tonne-mile. Union Pacific aligns with our Resource Efficiency investment theme, and a significant portion of its revenue supports SDG 9: Industry, Innovation & Infrastructure, which focuses on building resilient infrastructure and promoting more efficient and sustainable industrialisation. The company is a relatively high emitter itself, but through the service it provides, it plays an important role in reducing transportation emissions more broadly.

We therefore view these higher-emitting holdings as contributors to long-term climate solutions. While their operational emissions profile cannot be overlooked, their operations can play a role in lowering the carbon intensity overall.

Science Based Targets

For us, a crucial consideration is companies setting science-based targets (SBT); a clearly defined pathway for them to reduce greenhouse gas emissions. A target is considered 'science based' if it is consistent with what the latest climate science deems necessary to meet the goals of the Paris agreement. We are particularly encouraged when a company has an SBT that has been formally approved by an independent organisation, such as the Science Based Targets Initiative (SBTi).

For the SBTi to approve such a target, its team of experts review a submission and validate it against defined science-based criteria. This includes; ensuring that i) the target is appropriate for the company's sector, ii) an appropriate near term time frame is used, and iii) emissions have been considered in absolute terms. Importantly, in most cases, a company must consider its Scope 3 emissions, which often account for the majority of its emissions.

For further information and analysis of the Funds' climate risk metrics, please refer to the Funds' Task Force for Climate-related Financial Disclosures (TCFD) product **reports**.

Appendix One: Fund Holdings

Sustainable Opportunities Balanced Fund Holdings as at 31 December 2025

Holding	Weight %	Investment Theme	Region
A2Dominion Housing Group 4.5% bond due in 2026	0.5	Health & Well-Being	United Kingdom
Advanced Micro Devices	1.0	Resource Efficiency	North America
Allianz	1.3	Health & Well-Being	Europe ex UK
American Express	1.4	No Theme	North America
American Water Works	2.6	Water	North America
Amundi	2.0	No Theme	Europe ex UK
Apple	1.7	No Theme	North America
ASML	1.1	Resource Efficiency	Europe ex UK
Broadcom	1.2	No Theme	North America
BUPA Finance 1.75% due in 2027	1.6	Health & Well-Being	United Kingdom
Cash	3.7	Cash	Cash Products
Compass	1.5	No Theme	United Kingdom
Daiseki	0.7	Resource Efficiency	Japan
Danaher	1.8	Health & Well-Being	North America
Ecolab	2.1	Health & Well-Being	North America
EDP Renovaveis	1.0	Clean Energy	Europe ex UK
Emerson Electric	2.0	Resource Efficiency	North America
Equinix	1.5	Resource Efficiency	North America
Fanuc	0.6	Resource Efficiency	Japan
Fidante Ardea Fund	2.3	No Theme	Alternative Investments
Foresight Environmental Infrastructure	1.1	Clean Energy	Alternative Investments
Foresight Solar Fund	1.6	Clean Energy	Alternative Investments
GCP Infrastructure Investments	1.5	Clean Energy	United Kingdom
Gecina	1.0	Resource Efficiency	Europe ex UK
Greencoat UK Wind	1.4	Clean Energy	Alternative Investments

Holding	Weight %	Investment Theme	Region
Halma	1.1	Health & Well-Being	United Kingdom
Horiba	1.0	Resource Efficiency	Japan
Infineon Technologies	1.0	Clean Energy	Europe ex UK
Intertek	1.5	Resource Efficiency	United Kingdom
Kubota	1.0	Food	Japan
Linde	1.2	Clean Energy	North America
London & Quadrant 2.125% due in 2032	1.4	Health & Well-Being	United Kingdom
Medtronic	2.0	Health & Well-Being	North America
MetLife 5% due in 2030	1.5	Health & Well-Being	United Kingdom
Microsoft	2.6	Resource Efficiency	North America
Motability Operations Group 3.625% due in 2036	1.1	Health & Well-Being	United Kingdom
Motability Operations Group 4.375% due in 2027	1.4	Health & Well-Being	United Kingdom
New York Life Global Funding 1.25% due in 2026	1.1	Health & Well-Being	United Kingdom
Novartis	1.9	Health & Well-Being	Europe ex UK
Novo Nordisk	0.9	Health & Well-Being	Europe ex UK
Nvidia	2.1	Resource Efficiency	North America
Places for People Homes Ltd 3.625%	0.4	Health & Well-Being	United Kingdom
Primary Health Properties	2.1	Health & Well-Being	Alternative Investments
Prudential	1.6	Health & Well-Being	United Kingdom
Relx	1.3	Resource Efficiency	United Kingdom
Rockwell Automation	1.5	Resource Efficiency	North America
SABESP	1.5	Water	Emerging Markets
Schneider Electric	1.9	Clean Energy	Europe ex UK
Segro	1.6	Resource Efficiency	United Kingdom
Thermo Fisher Scientific	1.9	Health & Well-Being	North America
TRIG	1.3	Clean Energy	Alternative Investments
TSMC	1.3	Resource Efficiency	Asia Pacific ex Japan
Gilt 0.875% due in 2029	1.7	Sovereign Debt	United Kingdom
Gilt 0.875% due in 2033	1.5	Sovereign Debt	United Kingdom
Gilt Idx/Lkd due in 2036	2.0	Sovereign Debt	United Kingdom
Gilt 1.5% due in 2047	1.8	Sovereign Debt	United Kingdom
Gilt 4.5% due in 2042	1.2	Sovereign Debt	United Kingdom

Holding	Weight %	Investment Theme	Region
Gilt 4.75% due in 2030	1.8	Sovereign Debt	United Kingdom
Gilt 0.125% I/L due in 2031	1.7	Sovereign Debt	United Kingdom
Gilt 1.75% due in 2037	1.4	Sovereign Debt	United Kingdom
Gilt 0.125% I/L due in 2029	1.1	Sovereign Debt	United Kingdom
Union Pacific	1.6	Resource Efficiency	North America
United Rentals	1.1	No Theme	North America
VH Global	0.3	Clean Energy	Alternative Investments
Visa	2.0	No Theme	North America
Waste Management	1.6	Resource Efficiency	North America
Waters Corp	1.2	Health & Well-Being	North America
Xylem	1.0	Water	North America

Sustainable Opportunities Growth Fund Holdings as at 31 December 2025

Holding	Weight %	Investment Theme	Region
Advanced Micro Devices	0.9	Resource Efficiency	North America
Alcon	1.0	Health & Well-Being	Europe ex UK
Allianz	1.3	Health & Well-Being	Europe ex UK
American Express	1.3	No Theme	North America
American Water Works	2.8	Water	North America
Amundi	1.9	No Theme	Europe ex UK
Apple	2.0	No Theme	North America
ASML	1.2	Resource Efficiency	Europe ex UK
Broadcom	1.6	No Theme	North America
Cash	1.4	Cash	Cash Products
Compass	1.1	No Theme	United Kingdom
Daiseki	1.0	Resource Efficiency	Japan
Danaher	1.6	Health & Well-Being	North America
Ecolab	2.5	Health & Well-Being	North America
EDP Renovaveis	1.5	Clean Energy	Europe ex UK
Emerson Electric	2.1	Resource Efficiency	North America
Equinix	1.2	Resource Efficiency	North America
Fanuc	1.5	Resource Efficiency	Japan
Fidante Ardea Fund	2.2	No Theme	Alternative Investments
Foresight Environmental Infrastructure	1.2	Clean Energy	Alternative Investments
Foresight Solar Fund	0.9	Clean Energy	Alternative Investments
GCP Infrastructure Investments	1.3	Clean Energy	United Kingdom
Gecina	0.9	Resource Efficiency	Europe ex UK
Greencoat UK Wind	1.0	Clean Energy	Alternative Investments
Halma	1.3	Health & Well-Being	United Kingdom
Horiba	1.0	Resource Efficiency	Japan
Infineon Technologies	1.5	Clean Energy	Europe ex UK
Intertek	1.0	Resource Efficiency	United Kingdom
Intuit	1.1	Health & Well-Being	North America
Kubota	1.3	Food	Japan
Linde	1.6	Clean Energy	North America

Holding	Weight %	Investment Theme	Region
Marsh & McLennan	1.4	No Theme	North America
Medtronic	2.3	Health & Well-Being	North America
Microsoft	3.4	Resource Efficiency	North America
Novartis	2.2	Health & Well-Being	Europe ex UK
Novo Nordisk	1.6	Health & Well-Being	Europe ex UK
Nvidia	3.2	Resource Efficiency	North America
Palo Alto Networks	1.7	Resource Efficiency	North America
Primary Health Properties	1.7	Health & Well-Being	Alternative Investments
Prudential	1.7	Health & Well-Being	United Kingdom
Relx	1.3	Resource Efficiency	United Kingdom
Republic Services	0.9	Resource Efficiency	North America
Rockwell Automation	1.9	Resource Efficiency	North America
SABESP	1.6	Water	Emerging Markets
Schneider Electric	2.0	Clean Energy	Europe ex UK
Segro	1.4	Resource Efficiency	United Kingdom
Siemens Healthineers	1.3	Health & Well-Being	Europe ex UK
Thermo Fisher Scientific	2.4	Health & Well-Being	North America
T-Mobile	1.3	Resource Efficiency	North America
Trane	1.5	No Theme	North America
TRIG	1.1	Clean Energy	Alternative Investments
TSMC	1.5	Resource Efficiency	Asia Pacific ex Japan
Gilt 0.875% due in 2029	2.5	Sovereign Debt	United Kingdom
Gilt 0.875% due in 2033	1.7	Sovereign Debt	United Kingdom
Gilt Idx/Lkd due in 2036	1.6	Sovereign Debt	United Kingdom
Gilt 1.5% due in 2047	1.4	Sovereign Debt	United Kingdom
Gilt 4.25% due in 2036	1.4	Sovereign Debt	United Kingdom
Gilt 4.5% due in 2042	0.8	Sovereign Debt	United Kingdom
Union Pacific	1.5	Resource Efficiency	North America
United Rentals	0.9	No Theme	North America
Visa	2.0	No Theme	North America
Waste Management	1.0	Resource Efficiency	North America
Waters Corp	1.2	Health & Well-Being	North America
Watts Water Technologies	1.0	Water	North America
Xylem	1.6	Water	North America

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15. London
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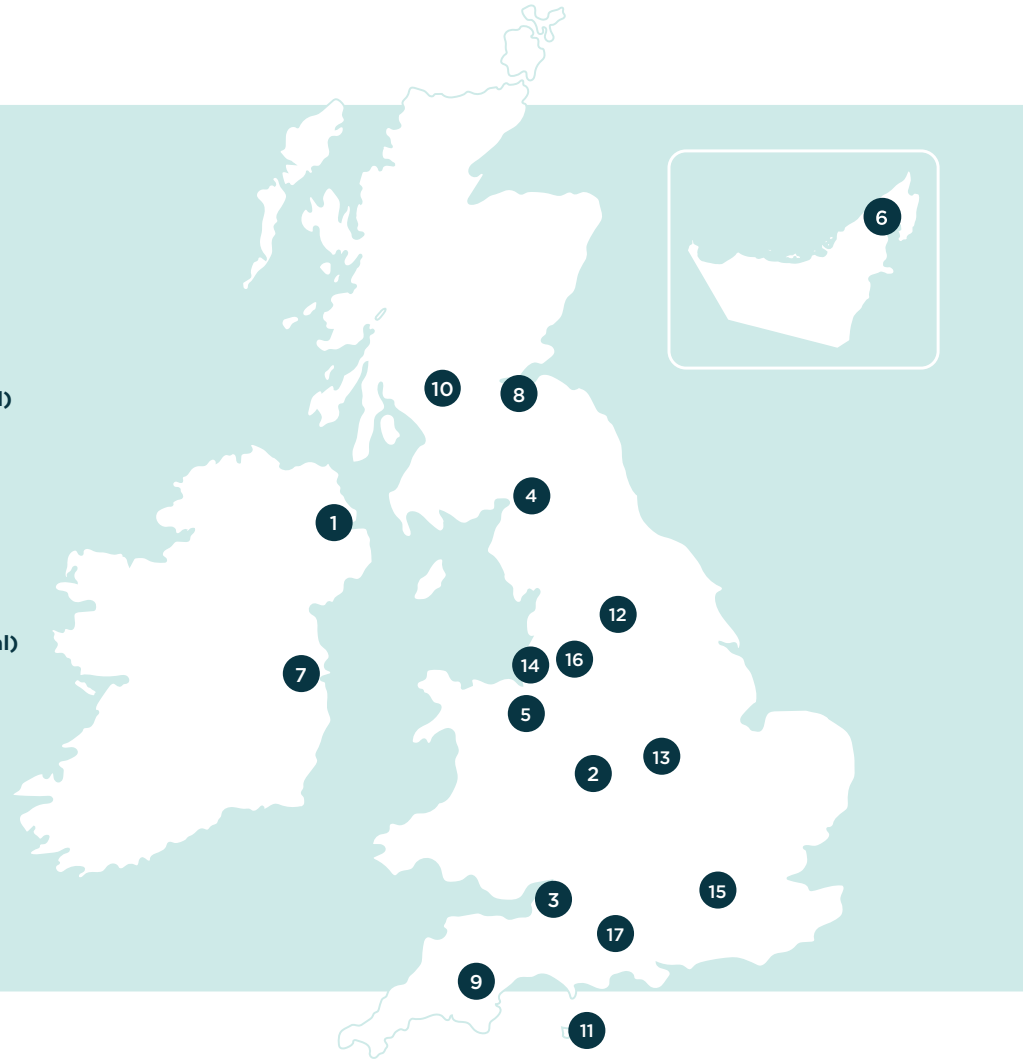
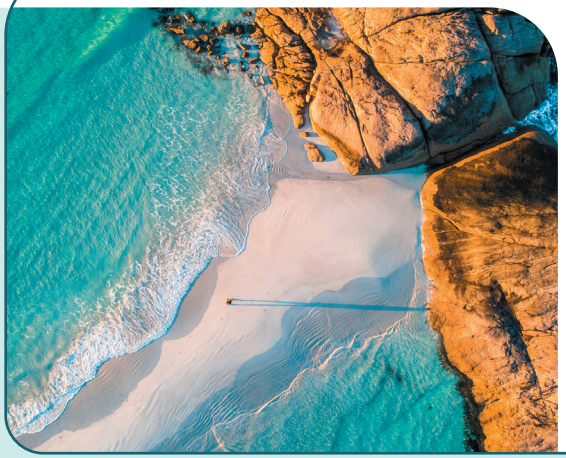
17. Salisbury



Investing with us



"They call it the investment opportunity of our generation. It has been our careers. We've been investing sustainably since 2010 and have the experience and passion to make the opportunity really count in the decades ahead."

Claudia Quiroz, Harry Gibbon & Caroline Langley
Fund Managers to the Sustainable Opportunities Funds

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The Funds have both income and accumulation units available.

There are several ways you can invest:

- Via a third-party platform
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The value of investments, and the income from them, can go down as well as up. Investors may not recover what they invest. Past performance and forecasts are not a reliable indicator of future performance. Please refer to the Prospectus and Key Investor Information for further details visit: https://www.quiltercheviot.com/our-services/sustainable-opportunities-funds/.

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