

Sustainable Opportunities Balanced Fund Quarterly Update - Q3 2025

October 2025 - for existing investors only

Sustainable Opportunities Balanced Fund (B-Share) - Q3 2025 - overview

- Over the third quarter of 2025, the Fund's return was +2.72% behind the IA Mixed Investment 40%-85% Sector, which returned +5.28%.
- 2025 is shaping up to be another good year for stock markets despite several negative headlines around trade tariffs and ongoing conflicts.
- Since launch (1 March 2010), the Fund has returned +188.90%, significantly outperforming its comparator, IA Mixed Investment 40%-85% Sector, which returned +156.59% over the same period.

Fund performance (to 30 September 2025)	3 Months %	1 Year %	Since Launch %
Sustainable Opportunities Balanced Fund - B Acc	2.72	2.85	188.90
IA Mixed Investment 40-85% Share Sector	5.28	9.33	156.59

Launch Date 01/03/2010. B Accumulation share class performance, inclusive of charges, in GBP with net income reinvested. The performance of other share classes may differ. The share price performance data uses an extended track record based on the Climate Assets Balanced A-Acc (donor share) up until 24 June 2012.

Source: FE fundinfo 30/09/2025. Past performance is not a guide to future performance and future returns are not guaranteed.

Market review

The third quarter saw strong gains for global stock markets, boosted by a resurgence in US equities. The main catalyst behind the advance was a growing belief that the Federal Reserve (the Fed) will aggressively cut interest rates to support the economy while risks from trade tariffs and international conflicts have seemingly receded, albeit not disappeared. In the period, we saw significant currency moves, with sterling appreciating 7.4%.

There has been a sharp deterioration in US jobs numbers in recent months, raising concerns about the health of the US labour market. Poor employment data was swiftly followed by President Trump firing the head of the Bureau of Labour Statistics, claiming the figures had been manipulated for political purposes.

The Fed cut interest rates for the first time in 2025 in September, lowering the Fed Funds rate by 0.25% to 4.25%. However, it is more the expectation of further cuts which has supported stocks, with derivatives markets pricing a 3.0% Fed Fund rate for 2026. In addition to the Fed's supportive shift, relatively higher earnings growth has also provided a boost.

It is true that noise around a bubble in AI focused stocks, and the potential for a wider market correction, is growing stronger. Market attention is clearly focusing on these companies and the potential for bad news sending ripple effects through the market.

There are arguably good reasons to be cautious. The ten biggest firms in the S&P 500 account for 41% of the index. However, those same ten companies account for 35% of the profits, so there is a mismatch there, but not as pronounced as previous tech bubbles.

There has also been lots of deals within the tech sector in recent weeks. OpenAI is going on a spending spree looking to be the ultimate winner of the AI war, but how it pays for this remains to be seen. The likes of Nvidia and AMD are helping to finance this. Being financed by your customers and your wider ecosystem is not a positive sign, nor is it sustainable. Not every tech company will be able to win in this market. We are likely to see a scenario where there are just a few overall winners and for those that don't win then their market ultimately shrinks.

That said, valuations remain well below previous bubbles, with the tech bubble for 1999-2000 the best comparator. Back then valuations were at 60 times earnings, whereas the current level is less than half of that. Certainly expensive, but not

necessarily a screaming bubble. We are also continuing to see strong earnings and profit growth at these companies as demand has kept up and governments are looking to spend. Furthermore, in an environment of rate cuts, tech should perform well.

Fund manager comment

The Fund's relative underperformance for the third quarter of 2025 was driven by Alternatives.

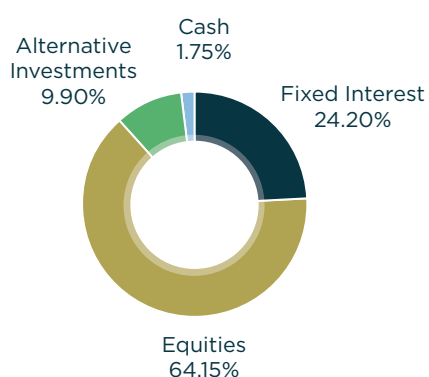
To manage our overall exposure to the Artificial Intelligence trade, we sold out our position in **Salesforce**, supported by valuation concerns as it is trading at 23x 2025 EPS with only 11% growth. We reallocated the proceeds into Europe, and we initiated a holding in real estate investment trust (REIT), **Gecina**. The REIT invests in, manages, and develops offices and living spaces across France. Its sustainable properties and green spaces help enhance inclusive and sustainable urbanisation by providing universal access to safe, inclusive, accessible and green public spaces. In addition, Gecina focuses on Parisian heritage preservation, helping strengthen efforts to protect the world's cultural and natural heritage. The company is aligned with our Resource Efficiency investment theme, and a significant proportion of its revenue is aligned with SDG 11: Sustainable Cities & Communities.

Assura, owner of a portfolio of GP surgeries and healthcare centres, has been a strong contributor over the period after a takeover bid from Primary Health Properties was accepted. Another key driver of returns over the period was the allocation to software and semiconductor stocks, like **Nvidia**, **Apple**, **TSMC** and **ASML**. Nvidia has reassured investors of the strong supply for Q4, easing concerns about supply chain bottlenecks supported by a strong product pipeline. Apple's increasing semiconductor content per device (especially with 5G and AI features) continues to drive demand at TSMC, which in turn supports Apple's performance, as Apple remains TSMC's largest customer. ASML's Q2 revenues were ahead of expectations, with a strong backlog and cash in hand providing resilience despite macro headwinds. Elsewhere, Portuguese renewable operator **EDPR** has also been a notable performer over the last 3-months, benefitting from a clearer policy environment for renewables in the US after Trump's Big Beautiful Bill was implemented.

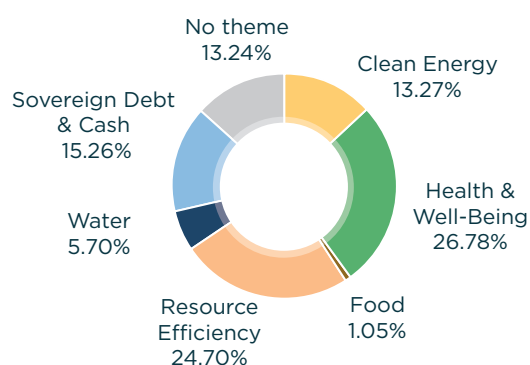
Alternatives was the largest negative contributor underpinned by UK renewable infrastructure like **Foresight Solar**, **The Renewable Infrastructure Group** and **Foresight Environmental**. High interest rates continued to weigh heavily on the sector. Higher rates reduce the present value of future cash flows from long-duration assets like wind and solar farms, leading to NAV compression and share price declines. Despite some central banks beginning to cut rates, the reductions were smaller than expected, prolonging the pressure on yield-sensitive assets.

References to specific securities are not recommendations to buy or sell those securities.

Asset allocation



Investment themes



Outlook

We continue to like equities and whilst growth and earnings risks are to the downside, it appears that a recession looks less likely now than earlier this year. Loosening budgets and fairer valuations are relative positives for European stocks. While global players look set to benefit from further stabilisation in the Chinese economy and exposure to Indian growth, as well as IT and commodity companies.

Fixed income currently offers historically attractive yields, we have seen volatility increase and are watching the fiscal situations in the UK, US and France closely. Yields in excess of 5% represent a sizeable return for government bonds while index-linked Gilts are currently offering an opportunity to lock in yields of 2.0% to 2.5% above inflation for 20 years — a historically attractive level.

The overall picture is uncertain and for investors this means diversification is crucial. It is also vital to watch how corporate IT spending progresses over the course of this year and into next to see how sustainable this growth can be. Should we start to see that slow, as well as digital advertising or capex for that matter, then the market may start to get jittery. We are not yet in bubble territory but given how the market is beginning to raise some flags, it would be prudent to be cautious at this time. We continue to manage our AI related positions and rebalance as needed after a good run.

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Approver: Quilter Cheviot Limited, 14 October 2025.