Sustainability Updates

In the light of escalating tensions in the Middle East, we recommend revisiting Portfolio Manager Dan Babington's recent investment note on the importance of optimism in investing as well as this note from last year about what to watch out for from news headlines and investment gurus. Then from last week, his most recent note outlines the statistical benefits of staying invested and why time in the market beats timing the market.

In encouraging news for the sustainability sector, global investment in the energy transition reached a record $2.3 trillion in 2025, up 8% year on year, driven by electrified transport, renewables and grid infrastructure. Despite policy and regulatory noise in some regions, clean energy deployment continues to show strong long-term momentum.

There were other encouraging signs too. The Net Zero Asset Managers initiative relaunched with support from more than 250 firms, while China's emissions fell slightly in 2025 even as energy demand rose, helped by rapid solar growth and a rising share of clean power.

February Market Review

February's macro backdrop was broadly supportive, with growth expectations for 2026 remaining positive and inflation continuing to moderate rather than disappear altogether. That combination of resilient growth and gradually easing price pressures created a constructive environment for both equities and bonds.

Within equities, leadership broadened further beyond the US. European markets and parts of the emerging world were among the stronger performers, while the S&P 500 was slightly weaker as investors became more selective around the scale of AI-related spending by large US technology companies and looked increasingly toward areas of the market with more attractive valuations.

From a Sustainable World perspective, that broadening in market leadership is a healthy development. Sustainable portfolios are typically diversified across structural growth areas such as technology and healthcare, but also more cyclical and real-economy transition themes including electrification, efficiency, grid investment and resource productivity, so a wider market advance can be supportive for both returns and sustainability outcomes.

Bond markets also enjoyed a calmer month. Government bonds rallied as inflation data softened, reinforcing expectations that central banks may still be able to deliver further rate cuts later in 2026, while corporate bonds also generated positive returns, with higher quality issuers generally outperforming more leveraged parts of the market.

Positioning & Outlook

> ***February saw no trades after an active January, which housed a selection of trades to align with our views for 2026 and beyond. Continued dollar weakness remains a core tenet of our positioning, expressed through an increase in Emerging Markets, and maintaining our responsibly sourced gold position despite recent volatility. We also added a European Equity Value strategy to complement our global equity positions.***

Looking ahead, the constructive backdrop that supported markets through February remains in place, although the tone has become less settled as we move into March. Escalating tensions involving Iran have pushed oil prices higher, raising concerns that progress on disinflation could stall if energy costs remain elevated.

Markets now face two fairly clear paths. A de-escalation would likely ease inflation concerns and support renewed strength in Europe, emerging markets and bonds, while a more prolonged period of tension could favour the US dollar, support US and UK equities more narrowly, and keep inflation worries elevated.

Our stance remains measured. While the situation is fluid, our base case is still that cooler heads prevail, so we are not inclined to make wholesale changes to portfolios in response to short-term geopolitical noise.

From a sustainability perspective, the broadening in market leadership remains encouraging. We continue to see opportunities beyond a narrow group of US mega-cap technology stocks, particularly in areas such as healthcare innovation, industrial efficiency, infrastructure modernisation and the energy transition.

We also believe momentum outside the US can continue, especially across Europe, emerging markets, China and Japan, where structural reform, domestic demand and investment in green and resilient infrastructure remain supportive. For sustainable investors, recent volatility is a reminder that the transition is rarely a straight line, but the long-term case for energy security, electrification, renewable power and resource efficiency remains firmly intact.

As a reminder, TAM's Sustainable World portfolios are built on four pillars: Avoid Harm, Do Good, Drive Change, and Deliver Financial Returns. The following examples highlight how each principle is applied in practice this month.

Avoiding Harm

When assessing harm avoidance, we first examine the screening thresholds a fund manager applies. But secondly and most crucially is understanding the principles of the firm, to build trust in how they have determined these revenues thresholds. This negates worries about the fund attempting to shift the screens in pursuit of financial returns or even breach them. When researching the Edentree

European Equity fund for our Sustainable World portfolios, we were reassured by not only the depth of commitment to sustainability but the recent announcement that every fund the firm manages received a regulatory stamp of approval in the form of an SDR label. This shows us that they are fully committed to sustainability with ethical values embedded deeply into the firm's foundations. These are the fund managers that we are looking to partner with in our portfolios.

Doing Good

It was fantastic to catch up with Co-Portfolio Manager of the Vontobel Emerging Sustainability Champions fund Raphael Luscher during the month. The recent strength in Emerging Markets has brought investor attention to the space, reminding us of the impact that can be achieved by investing in developing regions. The UN's Sustainable Development Goals were built as a framework for developing nations after all. The fund's approach which targets high quality companies that have at least 50% of their revenue aligned to the UN's 17 SDGs, has returned in both performance and positive environmental and social outcomes in the last 12 months. The goals that the fund most aligns with are SDG 9 – Industry, innovation and infrastructure, SDG 1 – No poverty and SDG 8 – Decent Work and Economic Growth. These three goals are particularly impactful in developing communities and reiterate our conviction in the benefits of investing through this strategy.

Driving Change

We also reviewed the engagement frameworks in some of our funds with T. Rowe Price (who manage our US Impact Equity fund) standing out as delivering consistent, positive improvements in their holdings. T. Rowe Price's engagement framework is rooted in active ownership, using ongoing company dialogue, stewardship and proxy voting to strengthen positive impact and address material environmental, social and governance risks. Engagement is closely tied to its investment process, with clear objectives set at the company level and progress monitored over time.

In 2024, this included engagement with Deere on improving disclosure around the environmental benefits of its precision agriculture tools, including emissions and fertiliser savings. It also engaged with Payoneer on clearer impact reporting for underserved customers, alongside governance issues such as board structure and disclosure. These engagements are critical for better reporting and therefore participation in sustainability focused investing.

Delivering Financial Returns

It was another month of strong performance, this time led by allocations to Emerging Markets and value (expressed through holdings in Vontobel Emerging Sustainability Champions and Schroder Global Sustainable Value). It was also great to see Regnan Sustainable Water & Waste return over 6% after a weaker year in 2025. Any rotation out of large-cap technology is always a boon for this strategy which focused on companies in the utilities and industrials sectors, which provide crucial infrastructure in sustainable water and waste systems.

Daniel Babington

Portfolio Manager

Daniel.Babington@tamassetmanagement.com