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Biodiversity Strategy

Our biodiversity strategy proved to be resilient and outperformed the broader equity market in April amid market turbulence

- Markets experienced volatility following Liberation Day and subsequent uncertainty.
- Technology enablers returned strong performance led by Cadence Design Systems.
- We opened a position in GFL, a Canadian waste and recycling company.

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Portfolio Managers, Listed Equity Impact

What's happening?

Global equity markets rose in April in US dollar terms. The month began with a global rout across equities, bonds and oil, while gold hit record highs as investors sought safe havens. The trigger was US President Donald Trump's Liberation Day tariffs, imposing punitive charges on countries he viewed as having unfair trade relationships. Markets swung wildly as Trump issued sweeping statements, reversed positions on rates, paused some tariffs for 90 days and reinstated others. His subsequent U-turn helped most major economies recover all or most of their initial losses. Japan, Europe and the UK all rose strongly, the US was down slightly and China was negative as its trade war with the US intensified. From a sector perspective, defensive areas such as consumer staples and utilities performed best while the energy sector fell sharply. Growth outperformed value during the month following steep declines in February and March.

Biodiversity was in the news for the wrong reasons in April as unseasonably warm and dry weather created conducive conditions for wildfires in Northern Ireland. One of the worst affected areas was the Mourne Mountains, still recovering from a wildfire in April 2021. Recent fires have damaged fragile upland heather ecosystems, home to ground-nesting birds, lizards and frogs. Ecosystems will recover but sometimes fires upset their balance with less-dominant species struggling to re-assert themselves. Humans' interaction with biodiversity is also highlighted by such events via reduced air quality and risk to water supply. Northern Ireland Water notes how bare soils, left exposed following fires, are more exposed to erosion. This in turn finds its way to reservoirs, meaning more treatment is required for drinking water.

Portfolio positioning and performance

The Biodiversity strategy outperformed the broader equity market in April.

Technology Enablers was the strongest performing sub-theme in April with semiconductor Electronic Design Automation company Cadence making the largest positive contribution to returns. Cadence finished the month reporting strong results

Source: All data sourced from Bloomberg, local currencies, as at 30/04/2025

and raised guidance. Construction software company Procore Technologies was a weaker name; worries about a potential recession, caused by Trump's tariffs, were priced into this relatively economically sensitive sector.

Novonesis led returns in Sustainable Food & Agriculture. Its share price performed well as the market rewarded the company for its minimal tariff exposure given its local-for-local production model. Its close peer DSM-Firmenich performed similarly well. US agricultural equipment manufacturer AGCO was weaker given its higher exposure to tariffs and continued weak agriculture cycle. AGCO manufactures some of its high horsepower tractors, for the US market, in Europe.

In Resilient Infrastructure, German reinsurer Munich Re generated strong returns as the market favoured its defensive profile and strong fundamentals. Halma was similarly strong, with investors attracted to its resilient water, safety and health businesses. Environmental testing and tools company Thermo Fisher was notably weak, selling off following Liberation Day, and not recovering as the company reported results later in the month, cutting their organic sales growth guidance 150 basis points.

Clean Harbors led returns in Responsible Production & Consumption as the shares started to recover from a trailing 12-month low early in the month. Improved returns were supported by solid results, reported later in the month, where the company's oil re-refining business beat expectations. This had previously been the driver of weakness in prior quarters. US diversified industrial Kadant was the biggest detractor to returns; Kadant has a fair amount of international exposure but is also exposed to construction trends. These both counted against the stock in April.

During April we started a new position in GFL Environmental and increased positions in Thermo Fisher, Accenture, NXP Semiconductors and Arcadis. Part of these trades was funded by trimming Republic Services. We believe GFL is a compelling waste and recycling company, which is growing faster than its peers given its differentiated M&A capabilities. GFL also benefits from Canada's EPR (Extended Producer Responsibility) regulations, which are supporting volume growth in addition to the company's pricing power.

Outlook

We think the portfolio is well-positioned to benefit from the structural tailwinds supporting investment in biodiversity. We think agriculture and food, closely followed by water, are the two biggest issues facing the natural world, and we think the fund's holdings in these sectors provide highly valued solutions to these challenges. While good progress has been made in recent years regarding regulation, in particular the Global Biodiversity Framework and the EU Nature Restoration Law, we find the more recent lack of consistency on environmental regulation frustrating. However, we do not think this is stifling innovation or progress in the private sector where companies are making sustainability-oriented investments independent of regulation. In fact, we are encouraged to see technology beginning to disrupt old-fashioned industries, like construction and agriculture, which have some of the largest negative biodiversity footprints.

Our outlook on financial markets remains unchanged. We believe markets have largely adjusted for a "higher for longer" interest rate environment where there will be greater scarcity of finance and growth. This should favour higher quality companies – those with strong cash flow generation and organic growth opportunities – who should be relatively unaffected. We believe the portfolio has good balance and can weather a potentially weaker economy or can outperform a more buoyant market with stronger growth.

No assurance can be given that the Biodiversity strategy will be successful. Investors can lose some or all of their capital invested. The Biodiversity strategy is subject to risks including Equity; Emerging Markets; Global Investments; Investments in small and micro capitalisation universe; Investments in specific sectors or asset classes.

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