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Biodiversity Strategy

Science-Based targets extend to oceans highlighting a step forward in global supply chain management

- Global equities gained from easing macroeconomic conditions across US, Europe & China
- Resilient Infrastructure continues to lead performance; weakness from residential construction
- We increased positions in Oracle and closed position in James Hardie

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Portfolio Managers, Listed Equity Impact

What's happening?

Global equity markets rose in September in US dollar terms, led by a continued US rally. The Federal Reserve delivered a 25 basis point cut, underpinning a tech-led advance that helped push indices to fresh records. European markets also rose on easing inflation and lower yields, aided by the ECB's decision to hold rates steady and improving private sector signals, even as political headwinds persisted. In China, stocks extended a bull run on policy support and renewed foreign appetite, though growth remained soft and inflation negative. From a sector perspective, information technology led the way followed by communication services and consumer discretionary. Conversely, more defensive areas such as consumer staples and real estate lagged the broader market. Growth outperformed value during the month.

Beyond financial markets, biodiversity-related initiatives continued apace. Climate Week NYC was held at the end of September and was notable for the announcement of 5 companies who will work to establish the first ocean science-based targets for the global seafood sector. These will sit within the Science-Based Targets Network (SBTN). Companies are looking to make ocean supply chains more sustainable by only working with verified suppliers and cutting ties with any involved in shark finning, commercial whaling or culling of marine mammals including seals and walruses. It is encouraging to see an established and respect body like SBTN broaden its scope and challenge member companies to pursue nature-related objectives alongside those relating to climate.

Portfolio positioning and performance

The Biodiversity strategy underperformed the broader equity market in September.

Resilient Infrastructure was the strongest performing sub theme in September with Dutch environmental consultancy Arcadis leading contribution to returns. Arcadis had a tough first half of 2025, but the business appears to be turning a corner, with investors hopeful for growth to recover in Q3 and Q4 this year. With many elections taking place last year, changes to governments led to delays in spending, which in turn acted as a headwind to the business. US distributor Core & Main was the biggest detractor to returns as the company reported weak fiscal Q2 2025 results, which included a cut to

Source: All data sourced from Bloomberg, local currencies, as at 31/09/2025

guidance driven by weaker than anticipated trends in their residential business. Residential construction remains weak, driven by persistently high interest rates, leading to eroding demand for some of Core & Main's products.

Construction software company Procore Technologies led returns in Responsible Production and Consumption. The company announced the appointment of new CEO Ajei Gopal, having commenced the search in March. Gopal has extensive enterprise software experience, which should help smooth his transition into the new role. Procore also took the opportunity to reiterate their Q3 and 2025 guidance. The weakest name in this sub theme was also a software company: PTC. However, we believe this was not related to fundamentals but instead profit taking following share price strength earlier in the year. This was driven by stronger than expected growth in the company's most recent quarterly results.

Gea Group and Trimble made the strongest positive contributions to returns in Sustainable Food and Agriculture. Gea continues to see solid demand for its products and has been able to effectively cover tariffs with higher prices. Trimble is continuing its hardware-to-software transition with ~80% of revenues now driven by the latter category. Nearer term, Trimble continues to see solid demand from civil construction projects while its logistics business Transporeon remains weak and would give the company leverage to a recovery in the European freight market. DSM-Firmenich was the biggest detractor to returns as their planned divestment of the remaining parts of their Animal Health and Nutrition was delayed. DSM has also suffered from generally weak demand for its Perfumery & Beauty and Health Nutrition & Care businesses.

During the month we opened a new position in Oracle and closed our position in James Hardie. Similar to Core & Main, James Hardie suffered from weakening demand in the US residential construction market. Thus, we decided to reduce the portfolio's overall exposure to this space.

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 strategy'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. Moreover, companies are increasingly realising their dependencies on scarce natural resources, such as water, and making considerable investments to manage this risk.

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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