Biodiversity Strategy

Biodiversity-related innovation in focus in Brazil as drought pressures coffee yields

- Global equity gains driven by US-China trade tension relief and 25 bps interest rate cut by the Fed
- Strength from Resilient Infrastructure; weakness from Sustainable Food & Agriculture sub-theme
- We reallocated capital from industrial machinery to technology-led companies

Anna Väänänen, Ashley Keet, Tom Atkinson and John Kisenyi
Portfolio Managers, Listed Equity Impact

What's happening?

Global equity markets rose in October in US dollar terms, supported by easing trade tensions and another solid US corporate earnings season. Trade talks between the US and China resulted in a tentative one-year deal to pause higher US tariffs and ease China's rare earth export controls, signalling a shift from earlier tensions. Meanwhile, softer US inflation led the Federal Reserve to cut rates by 25 bps to 3.75–4.00%, but Powell's cautious tone suggested a potential pause, prompting markets to scale back expectations for further easing. From a sector perspective, information technology was the standout performer yet again, supported by strong mega cap earnings and higher AI infrastructure investment, followed by utilities and healthcare. Conversely, more cyclical areas such as financials, materials and the consumer sectors all lagged. Growth meaningfully outperformed value during the month.

Commodity price volatility, specifically for coffee, gathered column inches in October as Brazil, the world's largest coffee producer, continued to struggle with drought. In Minas Gerais, the country's top coffee-producing state, eight out of the last ten years have seen below average rainfall. Moreover, soil moisture has dropped by up to 25% over six years in Brazil's most productive growing zones. This highlights an unfortunate feedback cycle whereby higher coffee prices incentivise more production, which often means deforestation to provide the required land, which in turn disrupts climate cycles and rainfall. Longer term, coffee growers should employ more sustainable agroforestry practices, but these are rarely used due to lack of education and resources. This case study highlights the clear dependence of one of Brazil's biggest industries on natural capital and shows how innovative solutions to these challenges might be highly valued by stakeholders and investors alike.

Portfolio positioning and performance

The Biodiversity strategy underperformed the broader equity market in October.

Resilient Infrastructure was the best performing sub theme in October, led by environmental testing company Thermo Fisher. Thermo's share price was strong prior to the company reporting Q3 2025 results in the second half of the month. These showed continued evidence of recovering pharma and biotech end markets, giving management sufficient

Source: All data sourced from Bloomberg, local currencies, as at 31/10/2025

confidence to raise guidance for the remainder of the year. On the other hand, Ecolab was the biggest detractor to returns in the sub theme as the company's results underwhelmed the market. The company still delivered impressive earnings per share growth, but investors had expected higher organic revenue growth. We still consider Ecolab a core position and expect growth to improve in the coming quarters.

Accenture led returns in Responsible Production and Consumption. The stock consolidated after several weak months, given its perception as an "AI loser". We believe Accenture should in fact benefit from AI as companies seek their consulting services to help them integrate AI into their workflows. Environmental solutions business Clean Harbors was the weakest name in October with the company reporting soft results at the end of the month. Earnings and preliminary 2026 guidance narrowly missed expectations and investors were somewhat negatively surprised by the company's decision to invest in additional commodity price-sensitive assets. The biggest driver of downward revisions to Clean Harbors' earnings in recent years has been exposure to base oil prices, hence the initial scepticism.

Sustainable Food and Agriculture was the weakest sub-theme with US food retailer Sprouts Farmers Market leading the negative contribution to returns. We started a new position in Sprouts early in the month on the expectation that growth had troughed. This proved not to be the case with growth slowing more than expected and the company citing a weakening consumer. We still believe Sprouts has a differentiated offering and a compelling new store led organic growth opportunity, but this may now take time for the market to recognise. Elsewhere, Deere drove the strongest returns in the sub-theme with one broker upgrading their recommendation to buy. This was based on the expectation that Deere's earnings bottom in 2026 before recovering in 2027. Deere has now seen several years of earnings downgrades, which we believe de-risks their investment thesis.

During October we topped up positions in Manhattan Associates and Zebra Technologies and trimmed positions in AGCO and Deere.

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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