Sustainable Investment Service (SIS) commentary

March 2025

Key highlights this month

- Global equity markets dropped in February, driven by concerns over the US economy's direction under the Trump administration
- Technology was particularly volatile, while defence, tobacco and Chinese equities showed relative strength
- Sustainable risk models lagged behind traditional benchmarks in February due to the weakness in technology and limited exposure to the sectors noted above.

> ***Insurance is increasingly recognised by investors and regulators as a critical tool for driving climate resilience.***

Portfolio performance

All sustainable strategies trailed traditional benchmarks in February.

Insurance as a sustainable theme

Insurance helps people and businesses take responsible risks while encouraging safer behaviour. This influence positions the insurance industry as a force for good, before we even consider its important role in climate mitigation.

Modern insurance is shifting from relying on historical data to using real-time, predictive models powered by artificial intelligence and scientific research. This evolution is crucial as climate change increases the frequency and severity of catastrophic events like the California wildfires, posing growing risks to society and infrastructure.

Insurance plays a crucial role in climate adaptation by making riskier assets more expensive to insure. Predictive climate models enable more accurate risk pricing, encouraging the adoption of cleaner, more sustainable technologies and infrastructure. Ultimately, insurance acts as a powerful economic lever to accelerate climate resilience and environmental responsibility.

Insurance is increasingly recognised by investors and regulators as a critical tool for driving climate resilience, with frameworks like the EU taxonomy for sustainable activities requiring forward-looking, science-based risk modelling. Accurately pricing climate risk removes barriers to adaptation and supports broader sustainability goals. As highlighted in the UN's Sustainable Development Goals, especially SDG 11, building resilient communities depends on effective risk management – with insurance central to making that possible.

Changes

We made no changes to portfolios in February but will be adding the Polar Capital Global Insurance fund in March. This fund provides exposure to the financials sector and tends to perform a defensive role in portfolios. This is useful given the more volatile technology and environmental solutions exposure held in the portfolio.

> ***Insurance acts as a powerful economic lever to accelerate climate resilience and environmental responsibility.***

Positioning

We have a neutral position in equities, fixed income and alternatives. Geographically, we continue to have over half of our equity exposure in the US and an overweight to developed Europe, particularly the Nordic economies.

Exposure to thematic investments increases across risk profiles. More detail on this below.

Outlook

We continue to have conviction that the general trend of a market rotation away from the 'Magnificent 7' (Apple, Microsoft, Alphabet, Amazon, NVIDIA, Meta and Tesla) remains intact providing a better backdrop in some of the long-term thematic opportunities we target.

How we think about investing sustainably across risk profiles

We see the primary return opportunity in thematic investments. These are a way of targeting companies producing products or services that help solve or mitigate sustainability challenges. This is an attempt to identify companies where innovation can help solve a sustainability problem.

These opportunities are prevalent in three main areas:

1. Technological advancement

2. Health and wellbeing

3. Environmental protection.

They break down into a number of differentiated themes which are highlighted in the table below.

The thematic managers we use pursue sustainable outcomes by investing in companies that they believe can create transformational change. They tend to have a focus on disruptive innovation and business models are often newer. This tends to be a smaller universe of companies than broader markets.

The adjacent areas tend to be characterised by smaller companies with higher levels of volatility than broader markets. For this reason, exposure to thematic investments is reduced in lower risk profiles.

We consider sustainability more broadly in lower risk profiles. Managers focus on sustainability at an operational level and there is less of a thematic focus. There is more exposure to larger, well established businesses and more sector diversification. We believe this is appropriate to control risk and volatility. The different portfolio names are reflective of the approaches being taken.

This is detailed in the below table.

Risk profile	Equity	Thematic % of portfolio	Thematic % of equity
Portfolio name: CGWM RP3 Sustainability Screened			
RP3	20.0%	5.0%	25%
Portfolio name: CGWM RP4 Sustainability Screened			
RP4	40.0%	10.0%	25%
Portfolio name: CGWM RP5 Sustainability Themes			
RP5	60.0%	30.0%	50%
Portfolio name: CGWM RP6 Sustainability Themes			
RP6	80.0%	60.0%	75%
Portfolio name: CGWM RP7 Sustainability Themes			
RP7	97.5%	97.5%	100%

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Important information

Investment involves risk. The value of investments and the income from them can go down as well as up and you may not get back the amount originally invested. Our portfolios are designed to work over a typical investment cycle of 7-10 years, so we recommend you stay invested for at least seven years.

The investments discussed in this document may not be suitable for all investors. Past performance is not a reliable indicator of future performance.

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