

RATHBONE GREENBANK GLOBAL SUSTAINABILITY FUND

QUARTERLY UPDATE MARCH 2026

After a period when central banks and inflation data largely drove markets, geopolitics returned firmly to the foreground during the first quarter of 2026. The escalation of the Iran conflict served as a stark reminder that geopolitical risk hasn't gone away – nor has the world's reliance on oil and gas.

Despite sustained political focus and ambitious decarbonisation targets, the global economy remains reliant on carbon based energy. While meaningful progress has been made in increasing the share of renewables within the energy mix, oil and gas still play an important role in powering our economies. Carbon fuels are fundamental to transport, heating, food distribution, industrial production and digital infrastructure, meaning that disruptions can have far reaching effects. The closure of the Strait of Hormuz sent energy prices much higher, unsettling equity markets and weighing on broader investor sentiment.

Obviously, our portfolios have no exposure to oil and gas miners, which meant we didn't benefit from their gains as oil, gas and electricity prices surged. Despite this, we are invested in renewable power enablers, electricity networks and their suppliers, which are benefiting greatly from rapidly rising demand for power. One silver lining of soaring oil and gas prices is that they make renewables more attractive – and profitable. With luck, peace will soon return to the Middle East, and perhaps the world will find itself even less reliant on fossil fuels.

A tough market, but opportunities aplenty

While spikes in oil, gas and electricity prices will initially feel inflationary – and may well cause central bankers to pause or reverse recent interest rate cuts – they are effectively a tax on growth, so are typically deflationary in the fullness of time as demand weakens. Much household energy spending is non discretionary, meaning pressure is felt elsewhere in consumer budgets. Interestingly, consumer staples did not offer the protection some investors might have expected during recent equity market turbulence, reinforcing the need to question conventional assumptions about defensiveness.

We lost money overall during the quarter, although performance varied widely across sectors. Software, financials, healthcare and other discretionary consumer-facing stocks were hit hard while more 'tangible' businesses have done very well so far this year, offering reassuring real-world weight when compared with the capital-light software companies in the crosshairs of AI. We own a few of these, including Finnish port infrastructure **Konecranes**, industrial gases supplier **Linde**, high-voltage transmission lines owner **National Grid**, power retailer and networks operator **E.ON**, and consumer brands business **Unilever** and safety systems specialist **API Group**. We trimmed all of these to keep the position sizes where we wanted them after strong runs.

Our technology holdings were mixed. Several software companies fell back as investors reassessed the long term impact of AI on established business models. This weighed on holdings such as digital office supplier **Microsoft**, e-commerce platform **Shopify**, and technical and scientific journals and data publisher **RELX**. We added to all three as we believe they should benefit from AI tools that make their products and services more accessible, insightful and mission-critical to users.

In contrast, companies supplying the hardware and infrastructure behind AI tools performed much better. Semiconductor equipment maker **ASML**, and chip manufacturer **Taiwan Semiconductor Manufacturing Company** delivered strong returns as demand for the physical build out required to support AI continued to gather pace. This also helped shares of **Quanta Services**, which is helping to build and modernise the US utility grid.

After a disappointing set of results, we sold **Abbott Laboratories** in January. The company develops pacemakers and other heart valve technologies, diagnostics tools, and nutritional supplements. While it hit profit targets for 2025, its sales growth missed, which led to a slump in the share price. The performance of its nutrition division was particularly worrying to us, with the company struggling to price their products competitively to drive growth. We wanted this business to be a steady holding for us that would de-risk our portfolio, but we felt Abbott had failed that test, so we moved on.

We used the cash to buy **VAT**, a Swiss specialist in vacuum technology. This isn't a competitor to Dyson. Its valves help create the completely sterile environments that are required for operating the most precise lasers and for making computer chips. About 80% of its business is selling the valves themselves, with the remainder servicing its products in situ. The company has averaged roughly 10% revenue growth over the past five years, with profit increasing by roughly double that rate.

Siemens Energy is the former gas and power division of the greater Siemens group. It was spun out in mid-2020 along with windfarm developer and servicer Siemens Gamesa. Now, Siemens Energy's business is roughly split by thirds into windfarms, gas turbine construction, and electric grid products and services. Electricity demand is increasing rapidly, which leaves Siemens in a great position: it supplies the parts for sustainable power and makes the heavy-duty equipment needed to maintain, expand and improve the high-voltage transmission lines that move power from where it's generated to where it's needed. Electrical grid work is already growing fast and should continue to do so. Meanwhile, demand for more gas turbines is growing too. We think this is a quality operator that's delivering parts and services to greatly expand electric power across the supply chain. We bought the shares in February and March.

Performance review

	3 months	6 months	1 year	3 years	5 years
Rathbone Greenbank Global Sustainability Fund	-4.9%	-2.6%	8.3%	18.6%	8.6%
IA Global Sector	-2.7%	-0.1%	13.2%	31.7%	38.4%
FTSE World Index (GBP)	-0.7%	3.2%	19.4%	53.3%	74.9%

	31 Mar 25-31 Mar 26	31 Mar 24-31 Mar 25	31 Mar 23-31 Mar 24	31 Mar 22-31 Mar 23	31 Mar 21-31 Mar 22
Rathbone Greenbank Global Sustainability Fund	8.3%	-7.6%	18.5%	-10.7%	2.5%
IA Global Sector	12.7%	-0.4%	16.8%	-2.8%	8.1%
FTSE World Index (GBP)	19.4%	4.8%	22.5%	-0.7%	14.9%

Source: Morningstar; data to 31 March, S-class, mid-price to mid-price.

These figures refer to past performance, which isn't a reliable indicator of future performance.

Another addition to our portfolio is Alpine adventure business **Jungfrau**. It owns the largest mountain railway in Switzerland, offering scenic trips through the mountains, along with a range of linked restaurants, hotels and experiences. The company is also the effective owner of a ski resort in the Jungfrau Ski Region, southeast of Bern. More than 1 million people travel to Jungfraujoch, a UNESCO World Heritage Site and the highest railway station in Europe at 3,454 metres above sea level. The railway is 100% electric, and the business owns its own hydroelectric power station and other renewable assets. The company offers steady, single-digit growth in both sales and profits that gives the stock a low beta (it tends to fluctuate much less than the overall market). We think this is an underappreciated stock that should help diversify our portfolio.

AI: the great snake that eats its own tail

After several decades of supremacy, the capital-light, software businesses are being severely rattled by the advent of AI. For the second consecutive quarter, software businesses were hit hard.

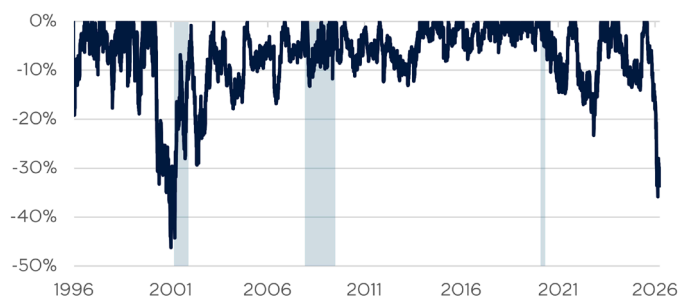
These software companies were long the most cherished part of the stock market, which meant many of them were highly valued relative to their prices. These businesses were so popular in the early part of the 21st century because they tend to have low capital intensity and leverage, and high cashflow. In plain English, they have few physical assets that require upfront investment (like factories) or tie up cash (like raw materials that go into their products), so they don't need big upfront loans or a big chunk of ongoing expenses to finance them. And that means virtually every extra customer or contract is pure profit, so they can grow rapidly and without constraint, since all they sell are intangible computer services.

AI changes the game, though. In this new generation of AI computing, adding new users requires huge outlays on computing power and training before the cash comes in the door. And then huge ongoing expenses for power, water, and new chips when the current ones wear out. Some of the bigger capital-light tech champions are shifting strategy, investing enormous amounts into AI and transforming into capital-heavy titans. Meanwhile, others risk being outmoded by cheaper AI tools. Many are unable to adjust – or by adjusting could lose much of their profits.

This all requires different calculations from investors. Capital-heavy businesses come with new risks, but the sheer scale of investment creates a moat perhaps even more forbidding than the 'network effects' that shielded the household names of tech from competitors in years past. For those that don't have general-purpose AI models of their own, there's a risk that they go the way of the dodo and Eastman Kodak.

There's another structural, overarching market effect for the software industry as well. The standard business model for such companies is to sell their access to their programs by 'seats', i.e. the more users, the more revenue. This is 'software as a service'. Yet this will come unstuck if AI means fewer workers doing more with existing tools. In that situation, software companies could lose sales even as they take market share. This cocktail of risks sent software companies tumbling in the first quarter. When measured against the broader S&P 1500 index, the software industry's 36% peak-to-trough drop was one of the worst ever.

2026 SOFTWARE ROUT WORST VS MARKET IN 30 YEARS OUTSIDE RECESSION



Source: FactSet, JPMorgan Research; data S&P 1500 Software vs S&P 1500 rolling 1-year worst drawdown in GBP between 1 January 1996 and 31 March 2026

Generally, your reaction to AI falls into one of two camps: either you think the technology will usher in a golden age, or you think that it will essentially eat the world. The battle between these two camps has been raging in forums and through stock prices for several years now.

When you invest, you could lose some or all of your investment.

Recently, the 'doomer' view has been strengthened, ironically, by those who think that AI will be so good that it will destabilise society. That it could lead to sharply higher unemployment and the destruction of virtually every business model going. That, if AI becomes as successful at displacing white-collar workers as optimists expect, then unemployment could rise fast and far. Such a dynamic would strain those with big mortgages and put a big damper on middle-class spending, which makes up much of the total. That would be bad for banks, insurers, consumer discretionary companies and the big payments companies that clip the ticket on all those transactions. They all duly sold off in the first quarter as well.

We're excited about the potential for AI to give productivity a shot in the arm that we've badly needed for some time. Many of our issues – ageing societies, spiralling healthcare costs and ballooning bureaucratic costs, for example – are literally fixed by doing more with less. While concerns about social unrest from rapid technological change are valid, we also think people are forever underestimating our innate adaptability. Sure, AI is spreading very quickly. But we're used to this: you don't have to be that old to remember faxes and dial-up internet. It's a standard refrain that the world seems to be on fast-forward compared with the past. As exhausting as that can be sometimes, it puts us all in good stead for dealing with tomorrow.

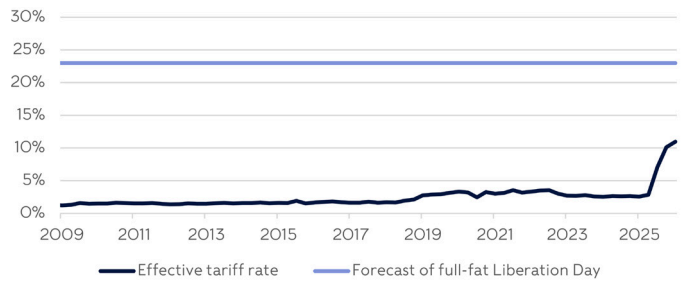
Another year, another uncertainty

Overall, the first quarter of 2026 served as another reminder that geopolitics rarely resolves neatly, but markets adapt quickly. Remember, exactly a year ago US President Donald Trump revealed his oversized placards with reciprocal tariffs for most of the world. Virtually everything dropped: global stocks, bonds and the dollar. Those new taxes were estimated to raise the average US tariff rate from roughly 2.5% to 23%. Investors worried that it would completely gum up trade, destroy economic growth and send inflation soaring.

This was a scary, risky time. But it wasn't a time to panic, cut and run. Investing comes with the risk of market falls – it's the price we pay for better returns in the long run. Often you must stick to your guns to reach those long-term returns. Liberation Day was no exception: global stocks are up about 15% in sterling over the past year (i.e. before the April 2025 Trump slump), with the UK a surprise frontrunner.

Over the past year, the effective US tariff rate has risen steadily but remained well below initial forecasts. The Yale Budget Lab thinks it should stay roughly flat to down from here, as the US Supreme Court's rebuke of the tariffs takes effect – along with Trump's reaction to keep most of them alive.

TARIFFS UP A LOT BUT WELL BELOW LIBERATION DAY FEARS



Source: FRED, Rathbones; quarterly total customs receipts as % of goods imports to the US, data from January 2009 to January 2026

We've learned to expect Trump to inject uncertainty into everything. Yet his overarching goals have remained pretty consistent. For all the noise and attention-grabbing headlines, we believe Trump's team is ultimately looking to achieve these aims:

- Greater energy independence
- Lower bond yields
- Deregulation
- Tax cuts
- Onshoring of key strategic industries
- Reducing overseas tax competition that keeps US profits offshore and untaxed
- Increased access to overseas markets for US companies
- Boosting tariff revenue, thereby lowering government deficits

You can see that the consequences of the Israeli-American war with Iran clash massively with point two. We believe this will push Trump to make a deal and de-escalate. Of course, this awful dance is a three-way tango. It's not enough for the US to want peace; Israel and Iran must agree. This is the biggest risk to markets at present: that Trump has lost control of the situation. The effects would be severe: economic growth is just energy with a fancy mask on. Renewable energy is a critical and growing fuel for global economies, but the world still runs on oil and gas.

Yet even if the energy crisis continues, the long-term dynamics of the world remain in place: people are getting older, government coffers are coming under greater strain, and better technology is the key to doing more with less. We believe the best businesses are the ones that deliver those new tools.



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Fund Manager

For more info on our fund, including factsheets, performance and fund manager views, please click [here](#).

If you require further clarification on this commentary, then please contact your adviser or Rathbones at the contact details below.

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