RATHBONES

RATHBONE GREENBANK GLOBAL SUSTAINABILITY FUND

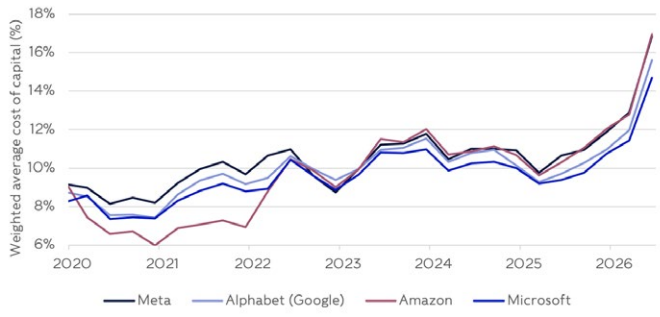
QUARTERLY UPDATE SEPTEMBER 2026

If the second quarter was full of plot twists, the third was a reminder that some stories run longer than anyone would like. Renewed fighting in the Persian Gulf sent energy prices sharply higher once again: Brent crude hovered near $109 a barrel in mid-September, and US diesel hit a record $6.31 a gallon. In September the US Federal Reserve (Fed) raised rates for the first time since July 2023, to 3.75-4.00%, and its officials pencilled in one more hike this year. The European Central Bank has hiked too. The Bank of England has held so far, but its rate-setters are openly talking about hiking if inflation keeps building. A year ago everyone was asking how fast rates would fall. Now they're asking how far they'll rise.

Government bond markets haven't had a quarter like this for a long time. Borrowing costs blew out in most countries, most significantly in the US, UK and France, and long-term 30-year bonds were the worst hit (see chart). In early October, 30-year UK government bond yields rose above 6% for the first time since 1998.

This has caused some rockiness in stocks too, although they have generally held their value, helped by profit growth that's been very strong indeed. In general, stock price-earnings multiples have dropped back this year. This could be because investors expect some of exceptionally high earnings won't last once the initial AI build-out boom is over. It could also be a reaction to higher inflation and interest rates, which reduce the value of profits expected years in the future. Hyperscalers, those tech companies spending huge amounts developing AI data centres, are needing to pay much higher returns to the bondholders and shareholders that finance them (see chart). This shows how their huge demand for money is starting to have an effect on financing.

HYPERSCALERS' COST TO FINANCE THEMSELVES IS RISING SHARPLY



Source: Bloomberg; Weighted average cost of capital is the average annual return a company pays to those who finance it, taking into account how much of the company is financed by debt and how much by shareholders; data 1 January 2020 to 30 June 2026

Stocks grind higher despite continued energy uncertainty

Our fund dropped slightly over the quarter. It was an up-and-down quarter, as a short-lived de-escalation in the Persian Gulf gave way to more tit-for-tat strikes and another spike in the oil price. Higher energy costs put more pressure on households and businesses, even as central banks are squeezing them with higher interest rates to prevent runaway inflation. Meanwhile, the risks and opportunities of extraordinarily large AI investments ('capex') by the hyperscalers and their suppliers keep investors both greedy and fearful in equal measure.

Higher oil prices and the growing acceptance that rates around the world were likely to rise rather than fall led to a shift in markets. Defensive, cash-generative businesses and large-cap software did the heavy lifting, while the companies supplying the physical infrastructure behind AI – standout winners in the second quarter – went into reverse, along with the wider industrial complex.

Adjusting chipmaking exposure

We shifted some of our chip investments out of manufacturing powerhouse **TSMC** and high-performance chip designer **Nvidia**. We also took profits in ultra-fast low-latency connection specialist **Arista Networks** and connector and wiring supplier **Amphenol**, both of which are helping kit out new data centres.

We spread that money among companies in different areas of the AI and computer ecosystem. The first was adding to Singaporean power and telco infrastructure investor and fund manager **Keppel**, which we first bought in the second quarter. The others were chip quality-control specialist **KLA** and chipmaking equipment supplier **Applied Materials**.

We sold **Aptiv**, which supplies electric cars with the software programs, hardware and sensors needed for their digital safety systems, and electrified tools. While the auto sector has been challenged for many years, Aptiv has been able to grow regardless because it sells tools that increase safety and electrical content within cars – a growth area. However, now even this part of the market is facing increasing competition from Chinese rivals. We question whether its revenue can sustainably outgrow vehicle production, so sold the stock.

Following strong results and performance that broke the generally downbeat trend of the healthcare industry, we took profits in July from laboratory and testing chain **Eurofins Scientific** and contract pharmaceutical producer **Lonza**.

Sustainability investment labels help investors find products that have a specific sustainability theme. This product has a 'Sustainability Focus' label: it invests mainly in assets that focus on sustainability for people or the planet.

Performance review

	3 months	6 months	1 year	3 years	5 years
Rathbone Greenbank Global Sustainability Fund	-0.9%	11.1%	8.3%	34.7%	7.8%
IA Global Sector	0.4%	13.4%	13.3%	47.5%	44.3%
FTSE World Index (GBP)	1.7%	17.2%	20.9%	71.7%	86.8%

	30 Sep 25-30 Sep 26	30 Sep 24-30 Sep 25	30 Sep 23-30 Sep 24	30 Sep 22-30 Sep 23	30 Sep 21-30 Sep 22
Rathbone Greenbank Global Sustainability Fund	8.3%	5.4%	17.9%	3.2%	-22.5%
IA Global Sector	13.3%	11.8%	16.4%	7.7%	-9.2%
FTSE World Index (GBP)	20.9%	17.8%	20.6%	12.2%	-3.0%

Source: Morningstar; data to 30 September, S-class, mid-price to mid-price.

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

We sold scientific and academic journals and data business **RELX**. While we think the company has been very unfairly marked down because of AI concerns, we felt it would simply take much too long for investors to be reassured. That would make the opportunity cost of holding it – the potential for better returns elsewhere – very great indeed. Meanwhile, there's a chance that AI solutions could increasingly gobble up client budgets, crowding out pricing power for RELX. It may also have to invest more heavily than first thought if it wishes to capture the more lucrative 'orchestration layer' (effectively the captain of the crew of the AI tech stack). Finally, RELX may suffer if client research budgets are slashed due to political reprioritisation, particularly in academic and public medical research.

The market and fundamentals had fallen out of step with each other over the course of the year, so the July pull-back in global stocks doesn't overly concern us in and of itself. Rather, it's the leverage lurking behind some of these moves, especially the heavily retail element, that makes us think some signals are flashing amber.

Lightening heavy industry's carbon footprint can make a huge difference

We bought US business **Wabtec**, an interesting business where heavy-duty engineering meets software and digital tools. A maker and maintainer of trains, freight cars and other heavy transit vehicles, it also supplies electronic train controls and signals, and similar sorts of plant and electronic systems for miners and other industries. About half its sales come from the US, with the other half spread around the world. The US is accounting for the lion's share of its growth, and is the more profitable division.

The company's servicing arm is a crucial part of the business, in our view. These long-term maintenance and modernisation contracts smooth out its cashflow, making it better able to invest and grow. Often, producers of heavy and expensive kit become very reliant on feast-or-famine ordering cycles. Wabtec is bolstering that ongoing business with software licences for its tools, digital services and the sale of consumable parts. Right now, these recurring businesses account for roughly 45% of Wabtec's revenue and 55% of its profit.

The business is sitting on a hefty backlog, which means its one-off sales are likely to increase as a share, which would make it more sensitive to an economic downturn. However, its total backlog has expanded 40% in the past year – it has orders for six years' production of train carriages. In itself, that gives much better visibility of earnings, as long as it delivers without any bloopers that make those contracts unprofitable.

We are confident in this management team's ability to do the job, and happy to support a company that's helping deliver better public transport all around the world. It's also improving the propulsion of its locomotives, swapping in cleaner technologies to reduce emissions, and developing next-generation engines that can make heavy-haul machines emission-free. Its first battery-electric heavy-hauling locomotive was shipped to Australian customers last year.

Meanwhile, we added to our holdings in industrial vacuums and compressed air systems supplier **Atlas Copco** and locks and access business **Assa Abloy**.

Americans hate AI, but do they love the economy it's driving?

On 3 November, Americans vote on all 435 seats in the House of Representatives and 35 of the 100 Senate seats. Democrats are favourites to win the House, while control of the Senate is close to a coin toss. CBS polling suggests the Democrats' edge comes from unhappiness with prices and from Republican voters who are less likely to turn out (again, because of unhappiness with the path of prices). Ask an American how the economy's doing and, these days, they'll tell you what groceries cost.

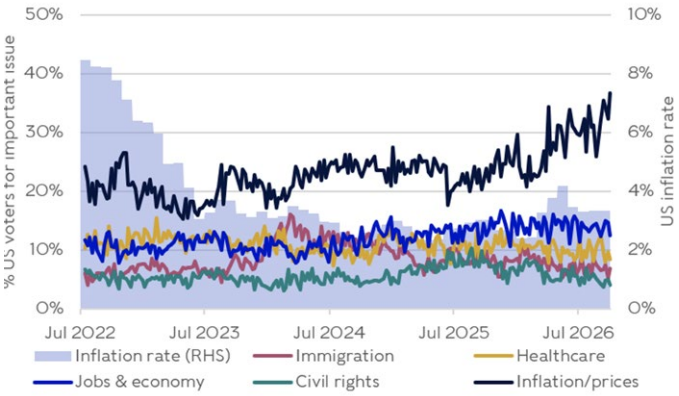
The likeliest result is divided government. That will mean plenty of colourful headlines. For investors, it usually means gridlock, and markets have tended to cope well with gridlock. Much of the administration's agenda already runs through executive action, and a Democratic House can make life awkward without reversing it. We don't expect the election to change the US economic or political direction much.

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

Company and economic fundamentals matter more, and they look good. In the second quarter, 78% of S&P 500 companies beat their earnings forecasts, and profits rose 53% from a year earlier. Some of that came from one-off investment gains at the big tech firms, but the underlying results were still strong. Revenue growth sped up to almost 13%. Consumers grumble, but they're still spending. Core US retail sales rose 1.2% in August and 5.6% from a year earlier, and employers added about 162,000 jobs. People don't spend like that if a recession is in the offing.

The US economy is a great paradox at the moment. Americans usually feel happy and optimistic when GDP is doing well: "It's the economy, stupid," remember? Yet, with growth holding up well and unemployment low, they are miserable and restive. Prices are the problem, according to US punters: 'inflation' has been far and away the nation's top problem highlighted by voters for four years in a row (see chart). And this at a time when inflation – while noticeably higher than target – hasn't been terribly high. In fact, complaints about inflation got worse even as inflation improved.

INFLATION CONSISTENTLY THE MOST IMPORTANT ISSUE FOR US VOTERS — EVEN AS INFLATION FELL BACK



Source: FactSet, Economist/YouGov Poll of registered US voters asking 'Which of these is the most important to you?'; latest poll consisted of 1,381 respondents between 2 and 5 October 2026; inflation is CPI annual change; data 1 July 2022 to 30 September 2026

The question becomes: how much of this angst over inflation is down to vibes? And how much is a legitimate grievance, as experienced by Americans, yet unrecorded by stats agencies that still rely on armies of shelf checkers and telephone surveys? As AI-fuelled algorithms personalise everything from Instagram feeds to the music we hear and the news we see, are they also personalising the prices people pay?

Consumer watchdogs in the US report growing use of 'surveillance pricing' since 2021 (helped by the rapid progress of AI models) – both online and in stores, that pushes up the actual prices Americans are paying in the real world. Some companies are using personal data and shopping histories to sell the same products to different people at different prices – even at the same stores on the same day. It only takes someone noticing this once before they see the potential for it everywhere and become suspicious that they are always being ripped off, even if they aren't.

Putting that together, it starts to make sense why Americans might say that they think inflation is actually much higher than the CPI stats say. And why they distrust the data showing the economy doing well: they may feel like it's extraction from their pocket, rather than genuinely positive.

All of this also reinforces the public feeling that AI is very powerful, but not really being used in their interest. Of course, it's impossible to know where the truth lies. But this gap between the public sentiment and the economic data (growth, profitability and inflation) is worth watching. Public unease can turn into regulation, and the midterms could amplify it. For now though, household spending continues, and our AI exposure sits mainly with the 'picks and shovels' suppliers: chips, networking and power infrastructure. We think they're paid for building the infrastructure, whatever voters end up thinking of it.



DAVID HARRISON
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.

Any views and opinions are those of the investment manager, and coverage of any assets held must be taken in context of the constitution of the fund and in no way reflect an investment recommendation. Past performance should not be seen as an indication of future performance. When you invest, you could lose some or all of your investment.

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