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Strategic: Go sustainable

Go sustainable

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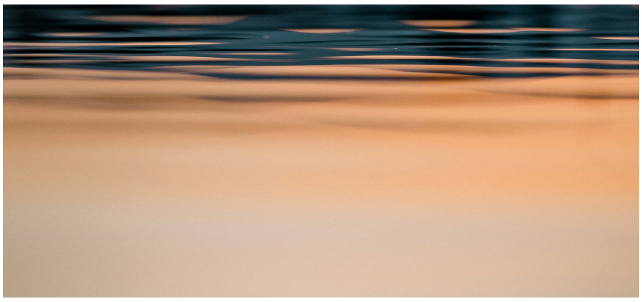
Why? 1) Sustainable investing can deliver competitive returns and alignment with sustainability goals. 2) The current geopolitical environment has reinforced the strategic importance of the energy transition for both security of supply and affordability. 3) We favor diversification across asset classes and exposure to private impact investments (subject to their unique risks).



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CIO identifies a number of transformational innovations that look set to shape global equity markets in the years to come. Each is closely linked to sustainability. *Artificial intelligence*, *Power and resources*, and *Longevity*, which represent CIO's three Transformational Innovation Opportunities (TRIOs), are all themes that invest in companies addressing challenges and opportunities across varied fields like resource efficiency, food and water security, and rising clean energy demand.

These topics align with the priorities driving the global sustainability transition, where investment momentum has been building. The International Energy Agency (IEA) has reiterated that to remain on a net-zero pathway, annual clean energy investment must increase to USD 4.5tr by 2030. A key theme from the 2026 Zurich Climate week was the key role of physical enabling technologies—particularly in power infrastructure—in supporting both decarbonization and adaptation. The electrification of industry, transport, and heating is accelerating demand for grid expansion and modernization. Investment is pouring into high-voltage cables, advanced

transformers, and grid optimization solutions, all of which are essential to integrate renewables, manage distributed energy resources, and enhance system resilience against extreme weather.

We expect companies supplying cables, transformers, switchgear, and grid management software to see robust growth, supported by regulatory tailwinds and public investment. These technologies are not only critical for emissions reduction, but also for ensuring energy security and climate resilience.

We therefore believe the secular case for investing in a sustainable portfolio approach, diversified across equities, bonds, hedge funds, and private markets, remains firm.

All major asset classes, including equities, bonds, hedge funds, and private markets, offer sustainable options, which historically have shown similar return characteristics to traditional investments, though risk characteristics differ particularly for alternatives. We believe that the longer-term performance of diversified sustainable investing strategies will be driven more by investment fundamentals and the economic environment than by politics.

Sustainable investors can put money to work depending on their intentions and objectives.

Equity options include:

- Strategies that predominantly invest in equities of issuers and assets providing solutions to sustainability or climate transition challenges;
- Engagement equity strategies that predominantly invest in equities of issuers demonstrating better operational sustainability or climate transition performance relative to peers;
- Strategies that look to generate progress by investing in equities of issuers that have potential to show improved sustainability or climate transition performance over time.

- Alignment strategies where equity fund managers actively engage with issuers with the aim of driving progress on sustainability or climate transition related topics.

Fixed income options include:

- Strategies that predominantly invest in bonds of issuers demonstrating better operational sustainability or climate transition performance relative to peers;
- Strategies where bond fund managers actively engage with issuers with the aim of driving progress on sustainability or climate transition related topics;
- Strategies that invest predominantly in bonds issued by multilateral development bank s, such as the World Bank, directly or via managed solutions. Proceeds are directed with the intent to generate positive environmental or social impact through development finance;
- Thematic fixed income strategies that invest predominantly in bonds that finance environmental or social projects and activities, as well as a transition process toward stronger sustainability credentials (including green, social, sustainable and sustainability-linked bonds);
- Municipal bond strategies that invest predominantly in municipal bonds whose proceeds are designated to fund projects with social or environmental objectives;
- Strategies that invest predominantly in securitized bonds like mortgage-backed securities where the underlying pools meet social or environmental criteria;
- Emerging markets finance strategies that predominantly comprise fixed income and currency solutions to provide private funding in emerging markets and support the efforts of development finance institutions.

In alternatives, risk-tolerant investors can consider sustainable hedge funds. Such funds incorporate ESG factors into their investment processes, aiming to exploit market inefficiencies related to ESG issues. They thus may offer differentiated investment opportunities.

And in private markets, we believe impact investments in climate technology that aim to help companies meet their decarbonization commitments reduce overall greenhouse gas emissions, and drive the overall transition to a low-carbon economy represent a significant investment opportunity.

Renewables play a critical role in decarbonization and in meeting the growing global energy demand. According to the IEA, renewables currently account for 35% of the global energy mix, a figure projected to rise to 46% by 2030. This growth is largely to be driven by improved cost efficiency, with renewables achieving cost competitiveness with fossil fuels since 2015. Globally, renewables dominate new capacity additions, while oil and gas have contributed minimally to recent growth. We think solar energy remains highly attractive due to technological advancements that have substantially reduced manufacturing costs. Additionally, the scalability of solar energy offers lower long-term costs, further enhancing its appeal.

Nonetheless, private market investors need to consider risk factors like leverage, potential defaults, and concentration risks. Investing in private market vehicles also requires a tolerance for illiquidity and comes with limited disclosure and control over holdings.

For those looking to invest in climate tech, CIO sees opportunities in funds focusing on early-stage and growth-stage companies, providing the capital needed to scale their technologies and bring them to market. We believe such funds have the potential to deliver venture-like returns, while also generating measurable environmental impact.

Moreover, investors can explore co-investment opportunities, which allow them to invest alongside experienced fund managers in specific deals. This approach provides access to high-quality assets and the ability of seasoned investors, enhancing the potential for strong returns. Additionally, secondary markets may offer liquidity options for investors looking to exit their positions or rebalance their portfolios.

Some investors may seek impact investing, a subset of investment solutions, where investors actively fund or engage with investments to generate measurable, verifiable, positive environmental or social impact alongside competitive financial returns.

Appendix

Non-traditional asset classes are alternative investments that include hedge funds, private equity, private credit, real estate, and managed futures (collectively, alternative investments). Interests of alternative investment funds are sold only to qualified investors, and only by means of offering documents that include information about the risks, performance and expenses of alternative investment funds, and which clients are urged to read carefully before subscribing and retain. **An investment in an alternative investment fund is speculative and involves significant risks.**

Specifically, these investments (1) are not mutual funds and are not subject to the same regulatory requirements as mutual funds; (2) may have performance that is volatile, and investors may lose all or a substantial amount of their investment; (3) may engage in leverage and other speculative investment practices that may increase the risk of investment loss; (4) are long-term, illiquid investments, there is generally no secondary market for the interests of a fund, and none is expected to develop; (5) interests of alternative investment funds typically will be illiquid and subject to restrictions on transfer; (6) may not be required to provide periodic pricing or valuation information to investors; (7) generally involve complex tax strategies and there may be delays in distributing tax information to investors; (8) are subject to high fees, including management fees and other fees and expenses, all of which will reduce profits.

Interests in alternative investment funds are not deposits or obligations of, or guaranteed or endorsed by, any bank or other insured depository institution, and are not federally insured by the Federal Deposit Insurance Corporation, the Federal Reserve Board, or any other governmental agency. Prospective investors should understand these risks and have the financial ability and willingness to accept them for an extended period of time before making an investment in an alternative investment fund and should consider an alternative investment fund as a supplement to an overall investment program.

In addition to the risks that apply to alternative investments generally, the following are additional risks related to an investment in these strategies:

- **Hedge Fund Risk:** There are risks specifically associated with investing in hedge funds, which may include risks associated with investing in short sales, options, small-cap stocks, "junk bonds," derivatives, distressed securities, non-U.S. securities and illiquid investments.
- **Managed Futures:** There are risks specifically associated with investing in managed futures programs. For example, not all managers focus on all strategies at all times, and managed futures strategies may have material directional elements.
- **Real Estate:** There are risks specifically associated with investing in real estate products and real estate investment trusts. They involve risks associated with debt, adverse changes in general economic or local market conditions, changes in governmental, tax, real estate and zoning laws or regulations, risks associated with capital calls and, for some real estate products, the risks associated with the ability to qualify for favorable treatment under the federal tax laws.
- **Private Equity:** There are risks specifically associated with investing in private equity. Capital calls can be made on short notice, and the failure to meet capital calls can result in significant adverse consequences including, but not limited to, a total loss of investment.
- **Private Credit:** There are risks specifically associated with investing in private credit. This could include losses stemming from defaults on loans, which in significant adverse circumstances could result in a substantial loss of investment.
- **Foreign Exchange/Currency Risk:** Investors in securities of issuers located outside of the United States should be aware that even for securities denominated in U.S. dollars, changes in the exchange rate between the U.S. dollar and the issuer's "home" currency can have unexpected effects on the market value and liquidity of those securities. Those securities may also be affected by other risks (such as political, economic or regulatory changes) that may not be readily known to a U.S. investor.

Global asset class preferences definitions
The asset class preferences provide high-level guidance to make investment decisions. The preferences reflect the collective judgement of the members of the House View meeting, primarily based on assessments of expected total returns on liquid and commonly known indices, House View scenarios, and analyst convictions over the next 12 months. Note that the tactical asset allocation (TAA) positioning of our different investment strategies may differ from these views due to factors including portfolio construction, concentration, and borrowing constraints.
Attractive: We consider this asset class to be attractive. Consider opportunities in this asset class.
Neutral: We do not expect outsized returns or losses. Hold longer-term exposure.
Unattractive: We consider this asset class to be unattractive. Consider alternative opportunities
Note: For equities, we have a five-tier rating system with two additional preferences
Most Attractive: We consider this asset class to be among the most attractive. Investors should seek opportunities to add exposure.
Least Attractive: We consider this asset class to be among the least attractive. Seek more favorable alternatives opportunities.
When equities are included with the other asset classes in the three-tier rating system, we collapse “Most Attractive” with “Attractive” and “Least Attractive” with “Unattractive.”

Appendix

Risk information
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