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QUARTERLY INVESTMENT PERSPECTIVE

Paid to Wait

Growth remains resilient, inflation has returned, and bonds are once again paying investors to be patient.

Q4 2026

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Past performance is not a reliable indicator of future results.

EXECUTIVE SUMMARY

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The third quarter challenged one of the assumptions that had supported markets earlier in the year. Economic growth and corporate earnings remained resilient, but inflation moved higher again as the conflict in the Middle East drove a sharp rise in energy prices. Central banks responded, bond yields rose and the prospect of steadily falling interest rates was pushed further into the future.

Yet financial markets proved remarkably resilient. Global equities ended the quarter higher, supported by strong corporate earnings, particularly among larger US companies. The broadening of market leadership that we highlighted last quarter paused, however, as higher borrowing costs and energy prices placed greater pressure on smaller companies and more interest rate sensitive sectors.

For investors, the most significant change has occurred in fixed income. Government bond yields have risen to levels not seen for many years, with the US 10 year Treasury yielding above 5% at the end of the quarter. Bonds are therefore offering meaningful income again, while retaining the potential to provide diversification should growth or inflation weaken.

This has influenced our positioning. We remain modestly cautious on equities, while increasing interest rate sensitivity within our bond allocations and maintaining broad exposure across equity markets. We see little need to chase increasingly expensive assets when high quality bonds provide an attractive return while we wait for better opportunities.

Patience has always been an important part of successful investing. Today, investors are being paid for it.

CIO INSIGHT

"We do not need to chase markets. With high quality bonds offering attractive yields, we can afford to be patient, remain diversified and add risk when the opportunities justify it.."

Eric Silvestre
Chief Investment Officer

THE CURRENT INVESTMENT ENVIRONMENT

Global growth remains resilient, but inflation has returned.

The global economy has proved more resilient than many expected. Business activity remains firmly in expansionary territory across most major economies, unemployment remains relatively low and corporate earnings have continued to grow.

The challenge has shifted back towards inflation.

The ongoing conflict in the Middle East has driven energy prices sharply higher. Brent crude rose by more than a third during the quarter, contributing to renewed inflationary pressure across both the United States and Europe.

Central banks have responded. The Federal Reserve raised rates in September, while the European Central Bank has also tightened policy in response to renewed inflationary pressures. The change is significant because investors began the year expecting monetary policy to become progressively easier. Markets now expect interest rates to remain higher for longer.

Despite this, equity markets have remained remarkably resilient. Strong corporate earnings have helped offset some of the pressure from higher borrowing costs, although market leadership has once again become more concentrated.

Market Performance at a Glance

ASSET	Q3 2026	YTD
MSCI World	+1.6%	+10.7%
S&P 500	+2.0%	+11.8%
FTSE 100	+1.0%	+6.8%
MSCI Europe ex UK	-2.2%	+6.9%
MSCI Japan	+1.7%	+21.0%
MSCI Emerging Markets	-1.0%	+21.4%
Global Bonds	-2.5%	-2.7%
Gold	+3.7%	-3.7%
Brent Crude Oil	+34.8%	+62.8%
US 10 Year Treasury Yield	5.28%	+1.11 percentage points

Market data to 30 September 2026. Price returns shown in each index's base currency. Global bonds represented by Bloomberg Global Aggregate, US dollar. Brent crude represented by December 2026 futures contract. Source: Bloomberg. Past performance is not a reliable indicator of future results.

KEY INVESTMENT THEMES

Earnings Continue to Support Markets

Corporate earnings have been one of the strongest supports for equity markets this year. In the United States, earnings expectations have risen considerably faster than share prices, bringing valuations down from their levels at the beginning of the year despite positive market returns.

That is encouraging, but expectations are now demanding. Analysts expect US corporate earnings to grow at a pace considerably above their long term average over the next two years. Strong earnings can support elevated valuations, but the higher expectations become, the greater the potential disappointment if companies fail to deliver.

Interest Rate Expectations Have Reversed

At the beginning of the year, investors were focused on when and how quickly interest rates would fall. That assumption has changed.

Higher energy prices and renewed inflation have forced central banks back towards tighter policy. Bond markets now price the possibility of further rate increases, pushing government bond yields sharply higher.

We believe markets may be pricing an overly aggressive path for rates. More importantly, current yields have created a much more attractive balance of potential outcomes for long term bond investors.

The Broadening Has Paused

Last quarter we highlighted the welcome broadening of equity market leadership. During Q3, that trend paused.

Higher yields and energy costs placed greater pressure on smaller companies, real estate, utilities and other businesses sensitive to borrowing costs. Larger companies with strong balance sheets and robust earnings proved more resilient.

We do not believe this invalidates the longer term case for broader equity exposure. Concentration remains a risk, particularly when a relatively small group of companies accounts for a disproportionate share of market value and expected earnings growth.

PORTFOLIO POSITIONING

Our investment philosophy remains centred on constructing resilient portfolios rather than attempting to predict short term market movements.

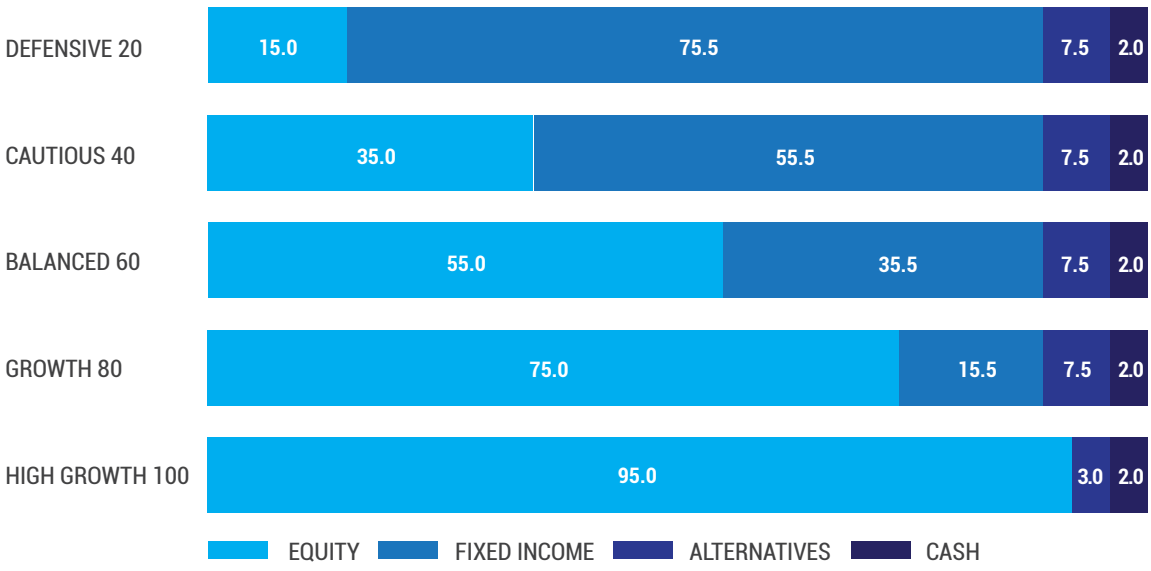
Equity exposure remains modestly below our long term strategic allocations across most portfolios. Strong earnings remain supportive, but expectations are high and we see little reason to increase overall risk at current valuations.

Within equities, we have continued to broaden exposure. US allocations have moved closer to neutral, but predominantly through broader and value oriented strategies rather than increasing exposure to the largest technology companies. We have taken some profits in Europe and Japan while adding selectively to emerging markets, where valuations remain particularly attractive.

Within fixed income, we have increased duration and moved some capital from shorter dated holdings into government bonds and diversified fixed income strategies. Higher yields now provide meaningful income and, in our view, an increasingly attractive balance between risk and potential return.

Alternatives continue to be used primarily for diversification, with allocations tailored according to the risk characteristics of each portfolio.

Indicative asset allocation by risk profile (%)



FIXED INCOME, ALTERNATIVES & REGIONAL POSITIONING

Bonds are a real alternative again

With the US 10 year government bond yielding above 5% at quarter end, fixed income is once again offering investors meaningful income rather than simply acting as a defensive allocation. We currently hold somewhat longer duration than our neutral position, primarily through government and high quality corporate bonds. If yields remain elevated, investors continue to receive attractive income. If inflation moderates or economic conditions weaken, falling yields could provide additional capital returns.

Within credit, we continue to favour investment grade bonds over high yield. Corporate balance sheets remain generally healthy and credit spreads have shown relatively little deterioration, suggesting that the weakness in bonds during Q3 was primarily driven by higher government yields rather than increasing concern over corporate defaults.

Regional Positioning

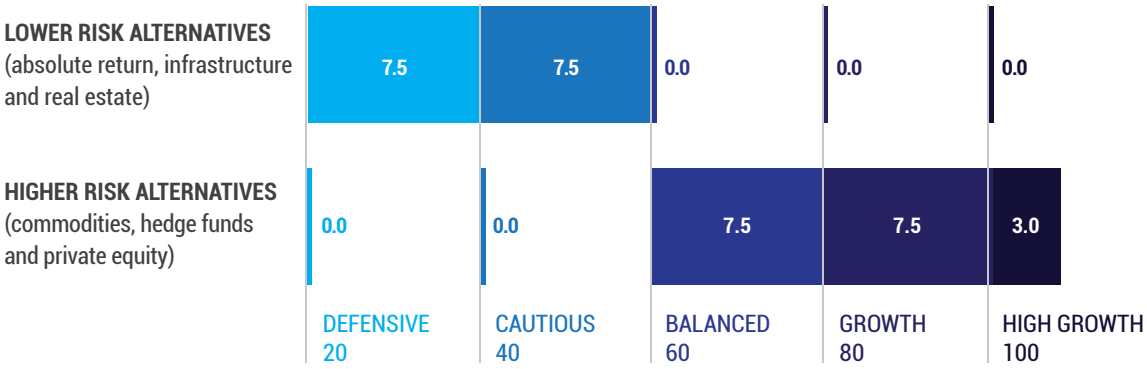
The United States continues to offer the strongest earnings growth, but also carries the highest expectations. We have moved closer to neutral while favouring broad and value oriented exposure. Europe and the UK remain reasonably valued, although higher energy costs and tighter monetary policy present near term headwinds. Our conviction in Japan has moderated following strong performance, with greater emphasis now placed on domestically focused smaller companies.

Emerging markets currently represent our strongest regional valuation opportunity. They trade at a substantial discount to developed markets and, in our view, many emerging economies now benefit from stronger domestic capital markets, improved monetary discipline and healthier government finances than in previous cycles.

Alternatives

Alternative investments continue to play an important role in portfolio diversification. Gold and precious metals remain diversifiers rather than directional bets, while absolute return strategies, listed property and other real assets provide additional sources of diversification alongside traditional equities and bonds.

Current asset allocation by risk profile (%)



Exposure to higher risk alternatives increases with portfolio risk and is carefully structured to ensure that lower risk portfolios avoid higher volatility assets such as commodities.

LOOKING AHEAD

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As we enter the final quarter of 2026, investors face an unusual combination. Economic growth remains resilient and corporate earnings are strong, yet inflation has returned, interest rates are rising and valuations in parts of the equity market continue to demand strong future growth.

For us, that does not require a dramatic change in investment strategy. It requires patience.

High quality bonds now offer yields that compete meaningfully with the prospective returns available from other asset classes. That allows us to maintain some caution within equities without leaving portfolios dependent on cash or attempting to predict the next market correction.

We can afford to wait for value, because today we are being paid to wait.

Looking towards 2027, we see particular opportunity in high quality fixed income and selectively within emerging markets. Bond markets may be pricing more monetary tightening than ultimately proves necessary, while emerging market valuations remain significantly below those of developed markets.

"We do not need to chase stretched markets. With high quality bonds offering attractive yields, we can afford to be patient and ready to act when better opportunities emerge."

Eric Silvestre
Chief Investment Officer

The principal risk to equities is not necessarily recession. Economic activity, employment and corporate profitability remain relatively resilient. Instead, we are watching the interaction between inflation, interest rates and increasingly ambitious earnings expectations.

Should inflation gradually normalise, the environment could become supportive for both bonds and the broader equity markets that struggled during Q3. Equally, a meaningful market correction without deterioration in underlying fundamentals would provide an opportunity to add risk.

Our approach therefore remains deliberately measured. We are diversified, modestly cautious on equities and increasingly constructive on high quality bonds. We do not need to predict exactly when conditions will change.

If you would like to discuss our portfolio positioning, the current market environment, or any aspect of this update in more detail, please feel free to reach out and speak with a member of our investment team.

We welcome thoughtful discussion and are always happy to provide additional context where helpful.

ERIC SILVESTRE
Chief Investment Officer

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