Ethical MPS

Quarterly Report

Q3 2025

KING & SHAXSON
Asset Management | Rewarding your Values

Portfolio Case Study: Iberdrola

In late July, portfolio holding Iberdrola announced a new joint venture with Echelon (an Irish data centre company) to build and operate data centres in Spain.

The recent global expansion of Artificial Intelligence (AI) has necessitated the development of data centres worldwide to accommodate the storage, processing, and management of the vast volumes of data it produces. These data centres consume an immense amount of energy, and in the U.S and China they are predominantly being funded by 'dirty' energy sources, specifically 56% by fossil fuels in the U.S. and 70% by coal in China.

We are excited by the joint venture between Iberdrola and Echelon, as it represents a step forward in tackling this issue. Iberdrola are providing land connected to the electricity grid and will ensure a 24/7 renewable energy supply, predominantly from solar sources.

In recent years, Spain has established itself as the gateway for global data to the European continent, with more than 70% of data traffic to Europe passing through. This is due to Spain's fibre optic network, submarine connections, availability of clean and competitive energy, and its developed electricity grid.

The agreement will be the largest of its kind in Europe, whereby Iberdrola will hold a 20% stake, and Echelon the remaining 80%. The first project the joint venture will carry out will be 'Madrid Sur', which is expected to be operational by 2030, and supplied by a solar photovoltaic plant to be built on site. Key facts and figures below:

Jobs Created	1,500
Project Complex Size	160,000 m^2
Data Processing Power	144 MW
Electricity Connection Secured	320 MW

Main SDG Alignments:

Iberdrola are driving the climate transition towards a new socioeconomic model that is climate neutral, resilient, sustainable and inclusive, and for this reason focus mainly on SDG 7 (affordable and clean energy) and SDG 13 (climate action). This case study in particular highlights their investments in renewable energy, digitalisation and electric mobility, making a direct contribution to SDG 9 (industry, innovation and infrastructure).

[1] Data Center Energy Needs Could Upend Power Grids and Threaten the Climate | EESI
[2] Energy supply for AI | IEA
Table data from Iberdrola Press Room | Iberdrola

Company Profile:

Iberdrola

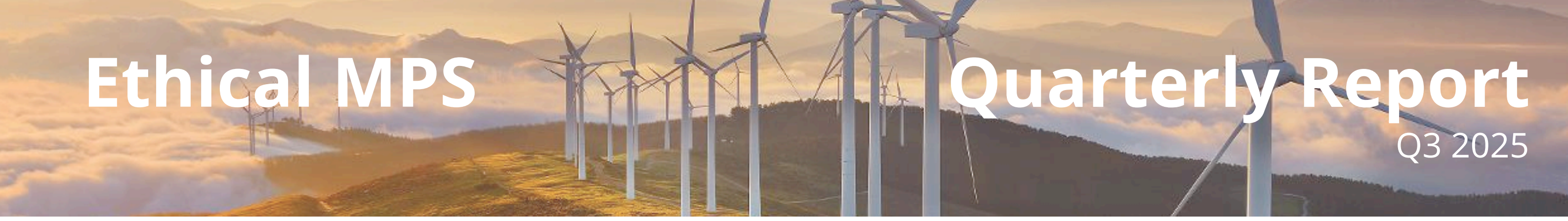
Iberdrola are a Spanish energy company driving the energy transition with a focus on renewable energy, smart grids and large-scale energy storage. For more than 20 years Iberdrola have been committed to clean energy, with the aim of reaching 100,000 MW of renewable installed capacity for future development. As of H1 2025, Iberdrola has 47,624 MW of renewable capacity, consisting of 46.7% onshore wind, 30.0% Hydro, 17.5% solar, 5.3% offshore wind and 0.5% batteries. The company has a global reach serving around 100 million people in dozens of countries, from Spain and the UK to Mexico, the U.S. and Brazil. It already sells more than 11 TWh to tech companies and data centre operators worldwide, making it a leader in data centre electricity supply.

CO_2 emissions

23.13 million CO_2 emissions avoided

245,082 MW owned capacity in renewables

+ 4.7 billion euros invested in renewable energies in 2024



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Market Review

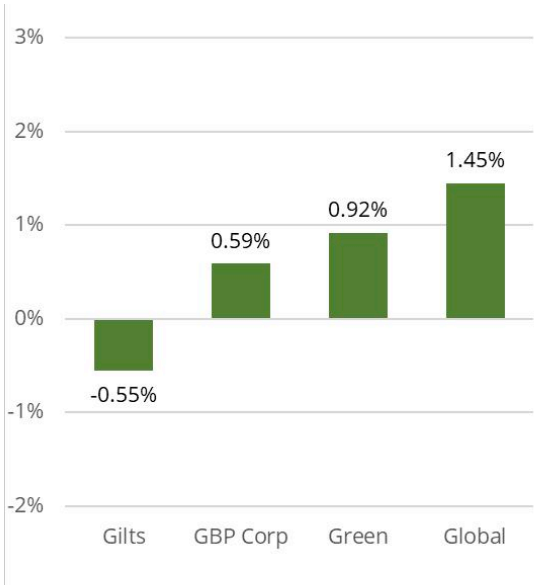
Global stocks continued to climb higher during the quarter. UK domestic focused companies and Europe lagged the US, whilst Asian (notably Japan) and Emerging Market equities were strong performers. Japan has been benefiting from governance reforms and higher inflation which has driven more positive investor sentiment. Elsewhere, there has been a noticeable shift to more risky and speculative allocations, including unprofitable or highly valued companies. AI enthusiasm has been a noticeable driver of equity market returns, particularly in the latter stages of the quarter.

Risk assets have been buoyed by the first rate cut from the Federal Reserve since December 2024. The US jobs market has cooled, albeit not showing major signs of cracks, whilst inflationary spikes from Donald Trump's tariffs have had a more limited effect on headline inflation figures for now, although there is evidence this is beginning to take effect. The US economy remains relatively robust, with second quarter GDP coming in above expectations at 3.8% versus the expected 3.3%. This scenario, and the high possibility that the Federal Reserve eases again in October has supported risk assets.

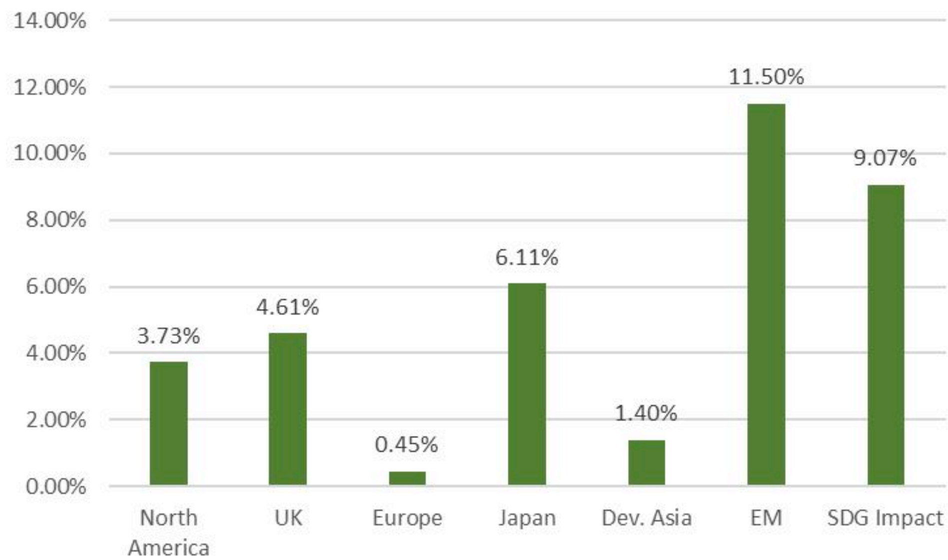
The path for monetary easing in the UK is less clear given inflation concerns remain. UK assets have been weak during the quarter given political noise around the Labour government's leadership and the tough task the UK chancellor faces at the budget in November. UK thirty-year gilts rose to a high of 5.748% after starting the quarter at 5.279%. A slightly more positive mood given the expectations for tighter fiscal policy saw the yield fall back to 5.506% by quarter end.

General Asset Class Returns (Q3 2025)

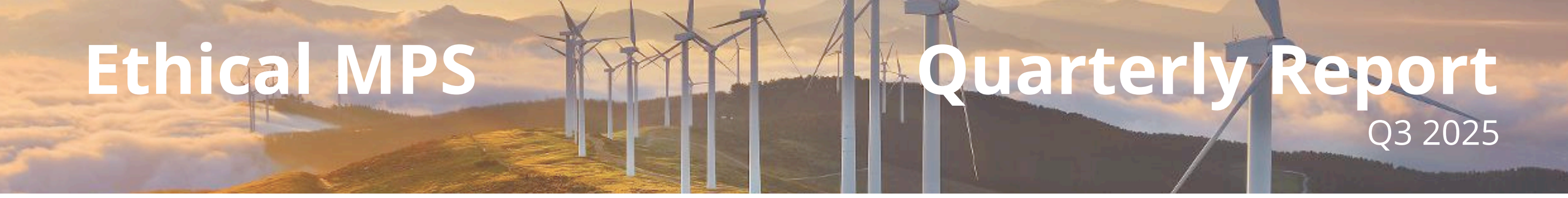
The below asset class returns should be used as a guide only. The fixed income reflects traditional bond indices as well as a leading global green bond index tracked by ETFs/Funds. The equity market returns reflect that of Funds/ETFs that track the SRI Paris Aligned Benchmarks to provide a gauge of returns that better reflect the underlying investment universe.



Fixed Income



SRI Equities



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Portfolio Review

With the risk on sentiment, UBAM Positive Impact Emerging Equity was a standout performer returning +12.83%. This is in line with the EM benchmark, with China benefiting from inflows. India was a laggard despite large improvements in the outlook, including a more supportive monetary and fiscal environment; where held in higher risk portfolios, this detracted from performance. Portfolios' core global sustainable funds lagged the wider market, returning +3.82% to 7.98%. The divergence in the core being the value focused funds outperforming the quality growth funds which have suffered somewhat with the more speculative allocations we have seen in the market. Portfolios direct exposure to the UK and Europe were laggards, largely detracting from performance. Although moving forward they provide much need diversification in the face of the AI rally.

There were notable performers in healthcare and smart energy, with Polar Capital Healthcare Opportunities returning +16.72% and Robeco Smart Energy returning +16.56%. Alternative energy and semiconductors have been particularly strong subsectors, with AI optimism a particular driver of returns. Portfolios world healthcare exposure has been recovering all quarter, but also rallied strongly into the quarter end, with pharmaceuticals in particular getting a boost on positive tariff and drug pricing agreements between companies and the US government.

Fixed income was largely positive on the quarter, with global corporate allocations outperforming sovereign. The notable contributors to performance were the T. Rowe Price Global Impact Credit fund which returned +2.30% and the Rathbone Global Sustainable Bond fund +2.31%.

Portfolios infrastructure exposure detracted from performance, with RM Alternative Income fund retuning -5.20% for the quarter, facing pressure from the rise in yields and concern over UK fiscal policy. The asset class has recovered in 2025 and remains important for diversification, notable during periods of market weakness.

Portfolio Performance (Q3 2025)

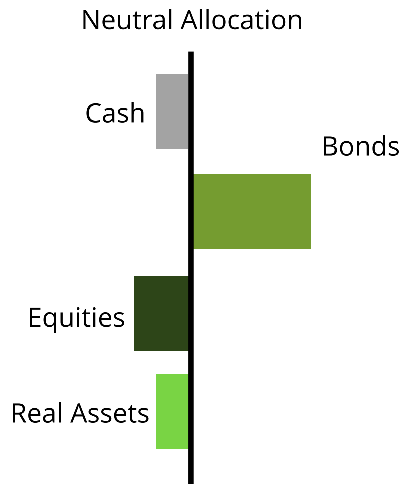
Portfolio	Defensive	Cautious	Balanced	Balanced-Growth	Growth	Adventurous
Quarterly Return	1.00%	1.87%	2.40%	2.72%	3.24%	3.98%

Asset Allocation Changes

There were no changes to portfolio allocations during the quarter.

Portfolios sit above their neutral allocations for fixed income. We prefer shorter duration debt given the premium demanded for longer dated debt in the face of fiscal concerns. Whilst rates have started to move lower, expectations for rapid rate cuts are off the table for now so shorter dated debt offers an attractive return with more minimal interest rate sensitivity. We are below neutral allocations for portfolios alternative allocation. With fiscal events in the UK being a risk, the underlying exposure has shifted more global. We are below our neutral level for equity given the uncertain macro background.

Asset Allocation Positioning



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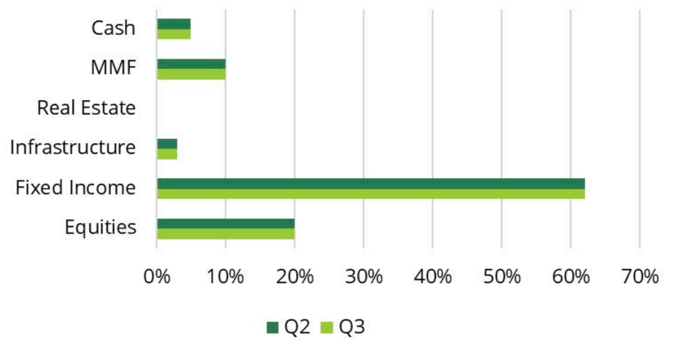
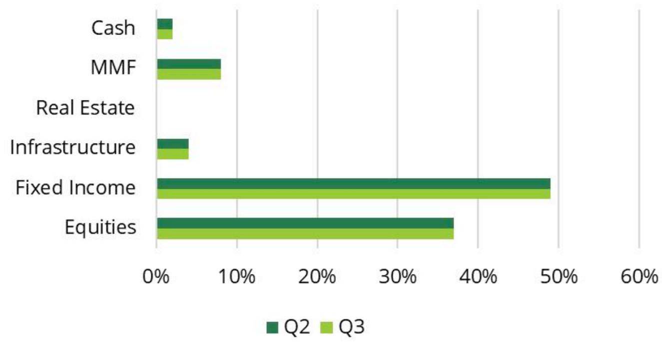
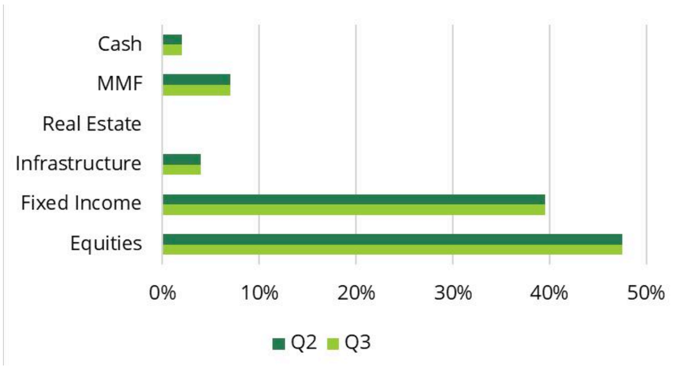
Defensive



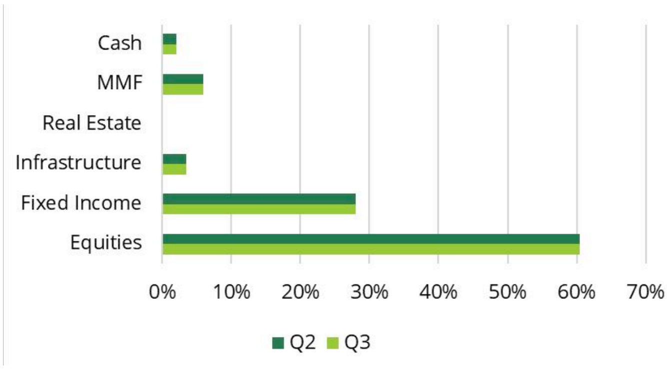
Cautious



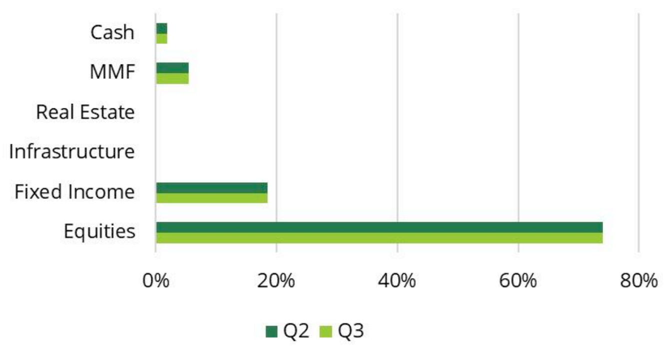
Balanced



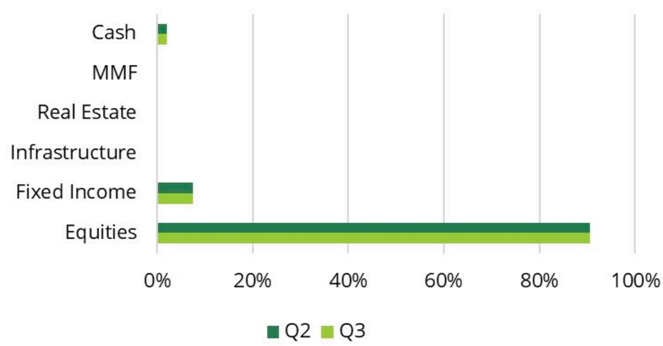
Balanced-Growth



Growth



Adventurous



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Outlook

Equity market confidence is largely driven by the AI growth story, which itself is rapidly gaining momentum. OpenAI have spending and investment plans close to US$1 trillion, which impacts not just the known AI names, but the wider chip market, the electrification producers, electricity generators, and the even the real estate sector. There are a number of warning signals that the AI boom is now a bubble, with a number of tech veterans adding to the increased column inches and airtime given to this risk.

Outside of AI, the economic outlook remains more balanced as weakening economic data and stubborn inflation continues to muddy the water for central banks and interest rates. This itself remains set against a backdrop of increased political noise, either with the direct interference seen in the US or the budget paralysis in France. This continues to impact not only the short- term interest rates set by the central banks, but also the long-term interest rates set by markets, both of which have important ramifications for bonds, property, infrastructure and equity markets, as well as future business investment decisions. In the coming quarter, budgets in the UK & France, and central bank decisions will be a key focus, alongside quarterly corporate reporting.

The question of economic growth remains open, with the big unanswered question remaining the impact of the tariffs that have taken effect since the Spring. This is now expected to become more evident as inventories built up ahead of the tariffs are used up. There have already been news reports, but markets will be keenly focused on comments made during the third quarter reporting season which begins in mid-October. There will be winners and losers, but this will feed through not only to individual share prices, but also into inflation expectations and therefore interest rates.

Whilst these two big but well known and versed questions dominate the outlook for the next quarter, quietly we have seen a recovery in key ethical sectors, notably; renewable energy, healthcare and social housing. This reflects a spreading of risks and the search for other opportunities outside of AI and makes the outlook for the next quarter far more balanced than we have seen for some time.

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