

Sarasin Global Equity Real Return

Quarterly commentary Q1 2026

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Economic review

A combination of factors shaped investor sentiment over the quarter. These included the outbreak of conflict in Iran and moves by investors between sectors of equity markets into areas that appeared to offer better value.

Early optimism around broadening global growth was overshadowed by renewed tariff disruption and then by a surge in oil and gas prices. This shifted investor focus towards inflation risks and led to weaker performance in both equities and bonds.

Many investors switched from large and expensive US technology companies to value-orientated parts of the market. Japan was the strongest major market, supported by a weaker yen and expectations for fiscal policy that would support growth. Meanwhile, UK equities were relatively resilient thanks to their exposure to commodities and the impact of weaker sterling.

Global government bonds were volatile over the quarter and generally weaker as higher energy prices caused renewed concerns over inflation.

UK gilts were the weakest of the major markets, as the UK was seen as particularly exposed to higher fuel prices. In addition, the Bank of England adopted a more aggressive tone.

The disruption to regional energy infrastructure and the closure of the Strait of Hormuz pushed oil and natural gas prices sharply higher.

Fund review

ASML, a major microchip manufacturer, delivered strong performance driven by record-breaking new orders revealed in the company's fourth quarter results. There was growing investor confidence in the sustainability of artificial intelligence (AI) demand.

The consumer products company Colgate-Palmolive maintained its recent momentum. This was largely a result of better-than-expected results for the final quarter of 2025 and a strategy aimed at maintaining growth over the next five years.

Microsoft shares were weaker amid concerns around higher levels of spending on AI, and the company's ongoing commitment in this area. We remain convinced that Microsoft will be a long-term AI winner.

Shares of ServiceNow, a software specialist, were weaker after the company announced its fourth quarter 2025 results. The weakness was despite performance that was better than expectations and the guidance for the full year 2026 being ahead of consensus.

Fund transactions

We sold our holding in the restaurant chain Chipotle. The shares benefited from a rebound in price and were trading close to our estimate of intrinsic value. We chose to redeploy capital into opportunities with more compelling upside potential.

We also exited our position in the animal health specialist Zoetis after disappointing performance from its Librela product for dogs. Increased competition has reduced our confidence in the company's ability to deliver sustained above-market growth.

We started a position in Quanta Services, which is a direct beneficiary of US electrical infrastructure expansion. While the valuation is high, we believe there is still upside on a multi-year outlook.

We also took a holding in BHP. The company offers high-quality exposure to copper, which we view as benefiting from demand arising from electrification, as well as tightening global supply.

Another new holding was Hoya, which manufactures optical glass, and has diversified into healthcare. We believe that the company offers exposure to attractive structural growth opportunities.

We started a position in an industrial metals ETF (exchange-traded fund). We think this sector could be a beneficiary of entering a multi-year physical investment boom led by the demand for AI, electrification, reshoring of domestic supply chains and defence spending.

Outlook

Although there are hopes of a managed de-escalation of the Iran war, there is also a strong possibility of a protracted, perhaps lower-intensity, conflict lasting several months. Global economic growth should remain resilient, assuming the beginning of some form of a phased re-opening of oil and gas cargoes through the Strait of Hormuz. Inflation is likely to increase modestly for most developed economies. Central banks have delayed interest rate cuts while the outcome of the Iran war remains uncertain.

We are actively seeking opportunities to increase our allocation to equities as we see a constructive longer-term backdrop for global equities amid signs of positive earnings growth, while valuations have come down to more acceptable levels because of the geopolitical uncertainty.

We have moved from a negative to a neutral position in UK government bonds, as yields are increasing. We remain underweight corporate bonds as we believe that the asset class does not currently offer strong returns or adequate diversification compared to its history.

Our stance on alternative assets is neutral. This includes gold, where we have locked in profits on our previously long-held overweight position.

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Key risks

It is important that investors are aware of the various risks prior to making an investment decision. The primary risks of the fund have been outlined below:

Emerging markets risk: Emerging markets may face more political, economic or structural challenges than developed markets. Shares may also be less liquid, meaning investments may not be sold quickly enough to prevent or minimize a loss. As a result, investing in emerging markets may involve a higher risk than investing in developed markets.

Alternatives risk: The fund may invest in alternative assets that are difficult to sell quickly, challenging to value, and subject to higher fees. These assets may also contribute to greater price volatility compared to traditional assets such as equities, fixed income and cash. Such conditions could lead to unpredictable changes in the value of your holdings.

Derivatives risk: Derivatives are financial instruments whose value is linked to the expected future price movements of an underlying asset. Derivatives such as futures, forward contracts, options, and swaps may be used to seek to manage risk within the fund, reduce investment costs and generate additional income. However, these strategies may not be successful and could lead to losses greater than the cost of the derivative.

Exchange Traded Funds (ETFs) risk: ETFs are subject to market fluctuations and the risks of their underlying investments. They are also subject to management fees and other expenses.

Operational risk: Operational risks arising from failures or delays in processes and systems, or the failure of a third-party provider may affect the value of your investments. If compensation is required to due failures, payments may be delayed.

Counterparty and settlement risk: The fund could lose money if a counterparty with which it transacts with becomes unwilling or unable to repay money owed to the fund.

Charges deducted from capital: The fund has charges deducted from capital, which may reduce the potential for growth.

Further details of the risks that apply to the fund can be found in the fund's Prospectus.

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The fund is managed by Sarasin Investment Funds Limited (the "Authorised Corporate Director/ACD"), which is authorised and regulated by the Financial Conduct Authority (FRN: 122244). The ACD has delegated its administration and registrar functions to Northern Trust Global Services SE, UK Branch. The ACD has appointed Sarasin & Partners LLP as the Investment Manager of the fund.

The fund may not be appropriate for investors who plan to withdraw their money within five years. Prospective investors should review the Prospectus carefully, including the section on 'Risk Factors', prior to making any final investment decisions. The Prospectus, the Key Investor Information Document for the relevant class, as well as the annual and half-yearly reports, are available in English free of charge via the relevant product pages on our website or upon request.

The fund may not be distributed to investors in jurisdictions where such distribution would be unlawful. The ACD reserves the right to reject any applications from investors outside of the jurisdictions where the fund is registered for sale. US Persons are not permitted to subscribe for shares in the fund.

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