

Q3 2025

HOUSE REPORT – CHARITIES

DOLLAR DYNAMICS

What shifting currencies mean
for global markets, investors,
and economic power

- **Equities: The surprising market upside of the Trump agenda**
- **Government bonds: Time to bust some myths**
- **Stewardship: How we are engaging with big tech over AI**

This document is intended for retail investors.
You should not act or rely on this document but
should contact your professional adviser.



**MELANIE
ROBERTS**

EDITOR

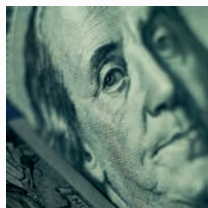
Welcome to the Charities edition of the Sarasin House Report, a collection of articles we believe to be most pertinent for charity trustees and executives, written by our colleagues from within the firm.

More than halfway through the year, and President Donald Trump's inauguration promises to make America 'greater, stronger, and far more exceptional than ever' are still having a huge impact on global events. It is unarguable that US foreign and economic policies – chiefly the 'Liberation Day' trade tariffs initially announced on 2nd April, and their subsequent iterations – have had a significant impact on volatility in markets through the first six months of 2025. Indeed, global indices have thus far largely remained unstirred by other global events, including the sad reality of conflict in the Middle East and Europe.

The US economy, US markets and US listed-companies are at the centre of this issue of the House Report as we address the biggest factors impacting investors today. In his strategy view piece, Guy Monson looks at the impact of Trump's tariff rhetoric and the surprising reaction from global markets. Subitha Subramaniam tackles the dollar in her article, examining the factors that could lead to prolonged weakness in the greenback against other major currencies. The subject of currency continues in Tom Santa-Olalla's article, which explores how professional investors like Sarasin manage foreign exchange risk, and the role hedging plays.

Recent events have turned some of the long-term assumptions about government bonds upside down. In his contribution, Michael Jervis explains the role of this asset class in portfolios, and revisits their role as the backbone of a balanced investment strategy. Elsewhere in this issue, we continue to examine arguably the most exciting and fast-moving technology sector, artificial intelligence (AI). Ianjit Bhatti and Kwai San Wong send us a postcard from their trip to Silicon Valley, giving us a fresh take on how AI and cybersecurity are evolving on the ground, while with a stewardship lens, Julia Shatikova, updates us on how Sarasin is engaging with major technology players to ensure that ethical AI principles are supported by practical safeguards and transparent governance.

We hope you enjoy reading our team's insights, and we of course welcome your feedback and suggestions for future topics or issues you would like us to cover. Please get in touch at housereport@sarasin.co.uk.



Cover image shows Benjamin Franklin, a founding father of the US, and a drafter and signer of the Declaration of Independence, on a \$100 bill

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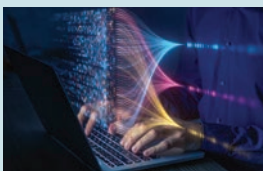
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Impact investing, school governance and trustee recruitment

An overview of three key topics affecting charities today

Impact investments for charities

More charity investors are looking to align at least a portion of their investments with their mission. The Charity Commission clarified the approach to social investments in their guidance for trustees (CC14).¹

We recognise that most clients seeking to allocate to impact investments typically do so with only relatively small proportion of their overall asset base. A key challenge for trustees is how to source, execute, and manage such investments effectively.

At Sarasin & Partners, we are looking to offer two distinct impact strategies to help trustees invest:

Stage 1: a discretionary, liquid portfolio of accredited impact bond and equity funds, selected through our rigorous research process and tailored to a client's risk profile.

Stage 2: facilitating introductions to illiquid, direct impact investments (e.g. General Partnership or Limited Liability Partnership structures) offering higher measurable impact but with wider financial return ranges.

As discretionary managers, we would not advise on the split between financial and impact returns. Instead, we would facilitate access to opportunities, providing guidance on impact investing to help clients make informed choices.

Financial pressures on UK independent schools

The independent schools sector is facing significant financial pressure, due to rising costs associated with national insurance contributions, removal of the VAT exemption on school fees and charitable business rates relief, to name a few.

The Independent Schools Council's (ISC) 2025 census reported a 2.4% decline in pupil numbers, in anticipation of, and following the removal of the VAT exemption.²

In recent months, we have also seen a number of schools merging in order to streamline their operations. Whilst an incredibly difficult decision, this may present a wealth creation opportunity for schools, bringing economies of scale and opportunities to reduce operating, marketing and fixed costs.

The ISBA (Independent Schools' Bursars Association) held their annual conference on Wednesday 21 May 2025, bringing together leading experts in the independent education sector.

Five members of the Sarasin & Partners charities team attended the conference in Manchester. Educational charities represent 27% of our client base, so the sector remains a key area of focus for us.



Trustee recruitment challenges

Charity trustees have long been the driving forces of the charity sector, crucial to its leadership, governance, and financial management. With ongoing financial pressures, the strategic guidance of trustees is more important than ever. However, many charities are struggling to maintain full trustee boards.

To address this issue, the Charity Commission published CC30³ last month, refreshing guidance on how to find and appoint trustees. Key takeaways include:

- Develop a clear role description for trustees. Review it regularly, and distinguish between essential qualifications and those that can be developed over time.
- Undertake a skills audit: determine the skills gap in your trustee board. Consider strategic needs, lived experience, and diversity of thought, age, background, and communities served. We believe that charities with diverse boards are often better managed, adapt to change and are therefore better placed to create long-term value.
- Widen your recruitment pool: avoid relying solely on personal networks. Advertise through social media, professional groups or trustee recruitment services.
- Plan a thorough induction for new trustees. Offer workshops, external courses and encourage familiarisation with Charity Commission resources.

¹ www.gov.uk/government/publications/charities-and-investment-matters-a-guide-for-trustees-cc14/charities-and-investment-matters-a-guide-for-trustees

² https://www.isc.co.uk/media/0u0llqv/_isc_census_2025_29may25.pdf

³ www.gov.uk/government/publications/finding-new-trustees-cc30/finding-new-trustees

Don't roll back the clock on audit oversight

Why weakening the PCAOB would damage capital market integrity



Natasha Landell-Mills
Head of Stewardship

Robust and independent audit is one of our key stewardship priorities. We promote accounting practices that support long-term capital preservation and value creation. That means ensuring prudence to prevent overstatement, and maintain transparency around capital strength to help contain excessive risk-taking. Without these safeguards, accounting failures are more likely, with serious consequences for investors, markets and long-term returns.

What happened?

Buried in Section 50002 of President Trump's 'One Big Beautiful Bill' was a proposal to abolish the Public Company Accounting Oversight Board (PCAOB) and transfer its responsibilities to the Securities and Exchange Commission (SEC). While this may seem like an administrative shift, it would have marked a reversal of two decades of regulatory reform.

The PCAOB was created in 2002 following the Enron scandal. Enron's collapse due to fraudulent accounting, and its auditor Arthur Andersen's failure to act, destroyed trust and cost investors billions. In response, US lawmakers passed the Sarbanes-Oxley Act, creating an independent audit regulator. Prior to this, oversight relied on a flawed model of self-regulation.

Fortunately, many stakeholders, including Sarasin & Partners, the CFA Institute and the International Corporate Governance Network (ICGN), spoke up to make clear the potential damage to investor trust.

The Senate Parliamentarian ultimately ruled the proposed abolition to be inadmissible under the Byrd Rule, which prevents significant policy changes from being disguised as budgetary measures to bypass full congressional scrutiny.

Although the PCAOB survived, it remains at risk of governance changes or funding cuts that could undermine its oversight capabilities in the future.

What are the implications?

A weaker PCAOB poses several risks:

Loss of independence. The PCAOB's design protects it from political and industry influence. Undermining its independence would compromise its integrity and ability to act decisively on audit failures.

No cost savings. The Board is funded by levies on listed companies, not taxpayers. Cuts to its activities would not save the taxpayer money, but would harm investors' protection against misstatements or fraud.

Reduced enforcement. Budget cuts could lead to fewer and less rigorous inspections. While some complain that PCAOB reviews are onerous, they are vital for accountability.

Weaker oversight of foreign auditors. The PCAOB doesn't just check domestic listed business audits. It has secured crucial agreements allowing it to inspect overseas audit firms, including in China. These hard-won arrangements could fall apart without the necessary resources.

Loss of expertise. PCAOB staff are key to its success. A weaker regulator with fewer resources and potentially lower pay levels could result in a loss of vital expertise.

Audit quality has improved since the PCAOB's creation. As Dan Goelzer, a founding board member, recently stated: "Restatement rates have dropped substantially since the early 2000s... firms devote tremendously more resources and leadership thought to audit quality than they did before the PCAOB."

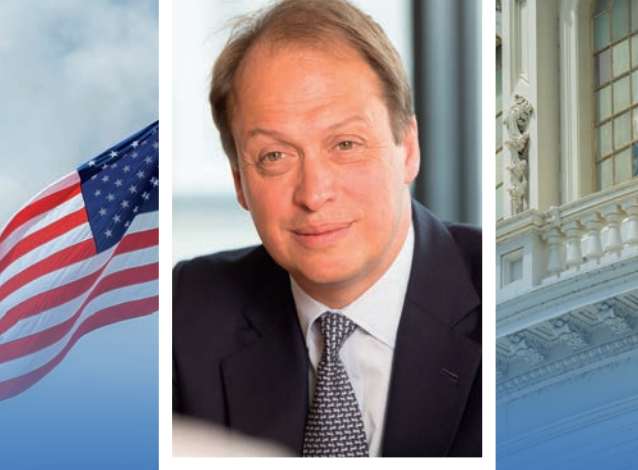
Of course, there are still weaknesses with audit quality, but this is precisely why any step to weaken a key area of progress would be retrograde.

How is Sarasin engaging?

For over a decade, Sarasin & Partners has been a vocal advocate for robust audit.

Alongside our support for outreach by the CFA Institute and ICGN to protect the integrity of the PCAOB, we publicly underlined investor concerns through our role on the International Audit and Assurance Standards Board's Stakeholder Advisory Council. In May, we released a statement urging audit professionals, audit committee chairs and company boards to join us in calling for the PCAOB to be strengthened, not dismantled.

Looking ahead, we will continue to press for robust audit oversight. At a time of heightened uncertainty in markets, now is not the moment to turn the clock back to an era of unaccountable audit.



GUY MONSON
CHIEF MARKET STRATEGIST
& SENIOR PARTNER

View from the Chief Market Strategist

THE SURPRISING MARKET UPSIDE OF THE TRUMP AGENDA

Key points

- Markets have remained resilient despite tariff disruption and ongoing conflict in the Middle East and Ukraine.
- Beneath President Trump's aggressive tariff rhetoric, investors are starting to identify elements of economic logic that appear broadly market friendly.
- A challenge for Sarasin has been a quality bias in stock selection, though we believe these companies will contribute to long-term value creation in due course.

The performance of global equities in the second quarter of the year was a textbook example of markets climbing a wall of worry. By the beginning of July, the MSCI World index sat above its level on the eve of President Trump's 'Liberation Day' on 2 April.¹ This is despite the highest US tariffs in nearly a century, three simultaneous Middle Eastern conflicts, and direct US strikes on Iran's nuclear facilities. In more 'normal' times, any one of these events might have triggered a surge in oil prices, a stronger dollar, and a sharp equity sell-off. This time, we saw the reverse.

Unexpected outcomes have emerged in Europe too. Intensifying conflict in Ukraine – combined with renewed American pressure to 'share the burden' – has prompted European governments to commit to significantly higher defence spending.² Ordinarily, such moves would unsettle equity markets and support the dollar. In fact, the euro strengthened while European equities rallied, led by banks, industrials, and defence stocks.

A similarly counterintuitive pattern can be seen in Washington, where President Trump's tariff programme continues to advance. Current projections suggest the average US tariff rate may settle around 15% or higher – a level not seen since the days of the Smoot-Hawley Act.³ Yet, rather than focusing on short-term inflationary risks, investors have largely looked through the noise and revised global earnings forecasts upward. Global dividends are projected to rise more than 10% this year, while US share buybacks hit record levels last quarter (chart 1.1).

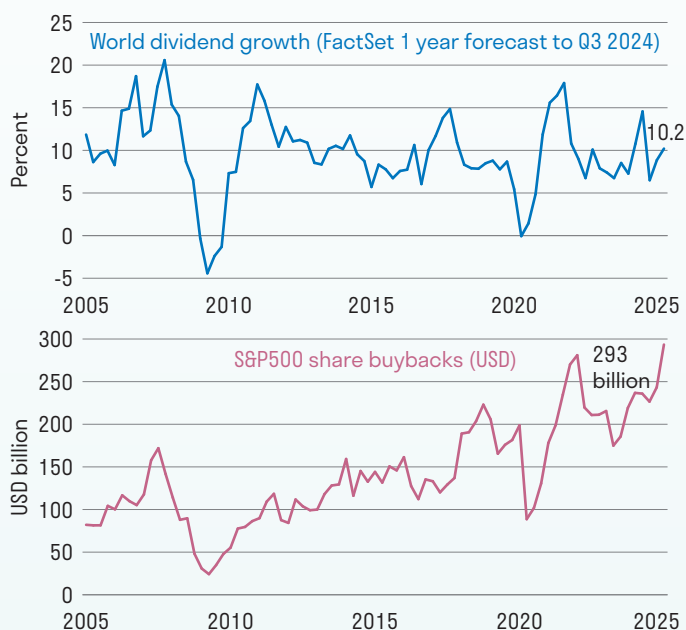
Why are markets rallying?

Why, against one of the most turbulent geopolitical backdrops in a generation, are markets rallying?

Part of the answer lies in shifting perceptions of the Trump White House. Beneath the rhetoric, investors are starting to identify elements of economic logic that appear broadly market-friendly. The US trade deficit, now approaching 5% of GDP, is plainly unsustainable.⁴ A moderate tariff regime – particularly one aimed at dismantling informal trade barriers – may yet succeed where other strategies have failed (as you can see in chart 1.2, tariff revenues are already climbing). Meanwhile, the inflationary effects of tariffs have yet to show up meaningfully in US data. The Fed's preferred measure, the Core PCE Deflator, remained steady at 2.7% for May.⁵

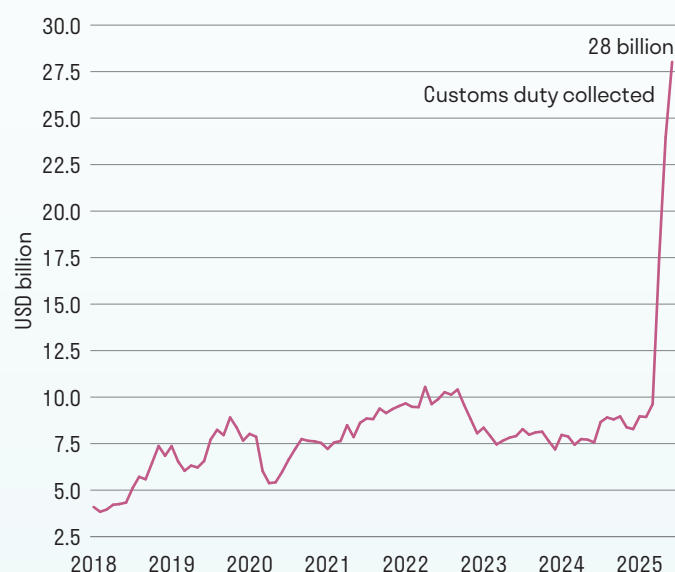
On the geopolitical front, it may also be argued that US strikes on Iran's nuclear sites have reduced rather than heightened global risks. The targeted action appears to have delayed uranium enrichment efforts long opposed by Washington, its allies, and Gulf partners. Iranian

CHART 1.1 REMARKABLY STRONG GLOBAL DIVIDEND GROWTH AND US SHARE BUYBACKS



Source: Macrobond (08.07.25)

CHART 1.2 REVENUES FROM TARIFFS ARE ALREADY GROWING AS TRUMP TRADE POLICY GAINS TRACTION



Source: Macrobond (08.07.25)

retaliation was limited – possibly even pre-signalled – and the broader economic fallout has been negligible. At the time of writing, oil prices (WTI) are more than 20% lower than a year ago,⁶ while the dollar, which typically strengthens in periods of stress, has fallen by more than 10% this year.⁷

Outside the economic sphere, the administration's immigration policies have also had a measurable impact. Whatever the longer-term debate, illegal border crossings have fallen dramatically – indeed, to near-zero – on both the southern and northern US borders.⁸ Compared to the ongoing immigration challenges in Europe and the UK, the White House appears to have delivered its objectives with surprising effectiveness.

Thematic high-quality companies for the long term

Against this backdrop, we have gradually added risk back to portfolios. We lifted our equity exposure back to neutral in late June as earnings forecasts continued to rise. We maintained our underweight to fixed income, particularly in corporate bonds, where spreads remain tight by historical standards. We have also kept our core positions in physical gold, anticipating ongoing central bank buying from China and other BRICs (Brazil, Russia, India, China) members, seeking more 'security' for their reserve holdings.

Our main challenge has been a quality bias in our stock selection where we have favoured companies with high returns on equity, low financial leverage, and stable earnings. While this protective strategy limited drawdowns in the post-

tariff sell-off, it also meant that we were slower to capture the strong market recovery of the last two months. While our AI-related technology holdings performed well, our quality tilt left us looking too defensive versus broader market indices.

Looking ahead, however, we expect our high-quality companies to outperform over the full business cycle. Tariffs will not be painless: margins will be squeezed, and US consumers will eventually face higher import costs. Asian economies with large manufacturing surpluses are likely to divert output to Europe, pushing down prices and placing further pressure on profitability. China's producer prices have been falling for three years meaning deflation in goods price is now entrenched.⁹ To protect margins, Western firms will need robust balance sheets and defensible market positions.

Our Security theme

Many of these 'quality winners' feature in Sarasin's new Security theme. This theme focuses on industries where competition is structurally constrained. Strategic supply chains – spanning metals, mining, semiconductors, and defence (BAE Systems has been added to our global equity buy list) – are fast becoming national priorities. Over time, food security (John Deere), energy, and communications infrastructure (recent attacks on undersea cables have triggered protective measures) will also fall under this umbrella. Cybersecurity, too, is vital – Fortinet is widely held, and is a global leader in network IT defence. You can read more about this sector following our analysts' visit to Silicon Valley on page 20.

THE SURPRISING MARKET UPSIDE OF THE TRUMP AGENDA

Guy Monson

In Europe, deeper domestic capital markets are needed to support more autonomous growth. Bank consolidation is likely to accelerate, and national champions, such as ING, will be favoured. More broadly, as government spending rises, yield curves should steepen – supporting bank earnings globally, benefiting firms like J.P. Morgan.

Climate resilience also fits within our Security framework. As temperatures rise and extreme weather becomes more frequent, the economic cost of inaction is growing. Despite the current US administration's scepticism, investments in climate-friendly technologies – at the right valuations – form an important part of our portfolio.

Debt and duration: another case for quality

There is another reason to focus on quality: government debt. A decade of low real interest rates has made heavy borrowing all too tempting, particularly in the US, UK and France. Much of this debt has funded social transfers rather than productive infrastructure. In the US, successive administrations have failed to reverse the trend of widening deficits and rising interest costs. Moody's downgraded America's credit rating in May,¹⁰ and the President's 'Big Beautiful Bill' is projected to add \$3–3.4trn to the national debt over the next decade.¹¹

In the UK, high debt levels have constrained Chancellor Rachel Reeves between a left-leaning Labour majority that resists spending cuts and a bond market demanding fiscal discipline. On the broadest measure – tax revenue as a share of GDP – the UK has not seen a peacetime burden this high since the late 1940s. The OBR now forecasts it will climb to a new high of 38% by 2027–28.¹²

Enter the bond vigilantes

Rising debt levels imply higher real rates, steeper curves, and the growing influence of bond market 'vigilantes'. More indebted economies may struggle to respond to future shocks, as seen during the global financial crisis and the Covid pandemic.

In the US, a bond market shock is becoming increasingly plausible – in response we have cut positions in dollar mandates and introduced some inflation-linked debt, where appropriate. At the time of writing, French 10-year yields were higher than those in Portugal or Spain, and nearing Italian levels.

This backdrop justifies our continued caution around bonds (indeed my colleague Michael Jervis dives into some of the detail behind our analysis on page 15), and also reinforces the case for gold. In our target return strategies, we also see value in equity protection, particularly while volatility remains low.

Summary

As the Trump administration's policies evolve – often erratically and noisily – it is becoming clear that some are proving market friendly. His focus is on deregulation, lower energy prices and corporate tax cuts, even if this builds pressure on government Budget deficits further out. His foreign policy, though unconventional, often seeks to reduce rather than amplify risk. Add to this a strong corporate earnings outlook, accelerating dividends, and record share buybacks, and the case for equities remains compelling.

Still, equity valuations are rich, and many of the early movers – particularly in Europe and Asia – have already rallied hard. In this context, we believe portfolios should be built around global security themes, anchored in quality holdings, and structured to withstand any future storm in sovereign debt markets.

¹ <https://www.msci.com/www/fact-sheet/msci-world-index/05830501>

² <https://www.consilium.europa.eu/en/press/press-releases/2025/07/08/council-activates-flexibility-in-eu-fiscal-rules-for-15-member-states-to-increase-defence-spending/>

³ <https://www.cnbc.com/2025/04/03/us-tariff-rates-under-trump-will-be-higher-than-the-smoot-hawley-levels-from-great-depression-era.html>

⁴ <https://www.bea.gov/data/intl-trade-investment/international-trade-goods-and-services>

⁵ <https://www.bea.gov/data/personal-consumption-expenditures-price-index-excluding-food-and-energy>

⁶ <https://markets.businessinsider.com/commodities/oil-price?type=wti>

⁷ <https://www.marketwatch.com/investing/index/dxy>

⁸ <https://www.cbp.gov/newsroom/national-media-release/cbp-releases-may-2025-monthly-update>

⁹ <https://www.cnbc.com/2025/07/09/china-producer-prices-fall-june-biggest-drop-nearly-two-years-deepening-price-war-cpi-ppi-nbs.html>

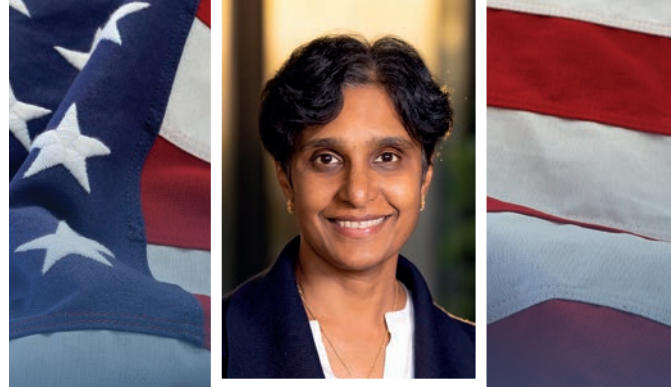
¹⁰ <https://www.moody's.com/web/en/us/about-us/usrating.html>

¹¹ <https://www.reuters.com/legal/government/view-us-house-approves-trumps-mega-budget-bill-2025-07-03/>

¹² <https://obr.uk/efo/economic-and-fiscal-outlook-march-2025/>

Economist outlook

THE PRICE OF POWER: TARIFFS, THE DOLLAR AND THE NEW AMERICAN ORDER



SUBITHA SUBRAMANIAM

CHIEF ECONOMIST
& PARTNER

As the Cold War drew to a close in the early 1990s, the United States set out to cement its global leadership. With the USSR collapsing and China only beginning to look outward, the US stood as the world's unrivalled military, financial and economic superpower. Over the next three decades, both Democratic and Republican administrations worked through multilateral institutions to exert America's influence as a *benign hegemon* – assertive, yet broadly cooperative – underwriting the global order while reaping the benefits of an increasingly interconnected world.

Nowhere is American power more visible than in the dominance of the dollar. Though the US economy represents roughly 25% of global GDP, the dollar accounts for 57% of official foreign exchange reserves and 54% of global export invoicing, and is used in 60% of cross-border loans.¹ Around 70% of global bond issuance is denominated in dollars, as is 88% of currency trading.² In virtually every corner of global finance, the greenback reigns supreme.

Dollar dominance confers a host of strategic advantages on the US. It reduces friction for firms operating overseas, grants policymakers rare insight into global financial flows, and provides a potent tool for imposing sanctions with extraterritorial reach. But the greatest benefit lies in the dollar's role as the world's dominant reserve currency. Unlike other nations, the US need not stockpile foreign reserves to guard against depreciation of its own currency. Instead, the rest of the world holds dollars – creating a built-in global market for American debt that affords the US extraordinary monetary and fiscal latitude.

An inward pivot

Under Donald Trump, the US is abandoning its long-standing role as a *benign hegemon*. The administration argues that the US ceded too much authority to multilateral institutions, compromising its own strategic interests. In response, it has actively withdrawn support from institutions such as NATO, the UN, the WTO and the WHO, while recasting its trade relationships on tougher, more unilateral terms. What has emerged is a wholesale redefinition of America's global posture: from rule-setting guarantor to *transactional hegemon* – wielding its economic, financial and military muscle to secure bilateral concessions, one deal at a time.

Alongside a more transactional view of the world, sits a more circumspect view of the dollar's role in the global economy. Team Trump believes that a strong dollar has been a key driver of both domestic and global economic imbalances. The administration believes that America's trading partners have been pursuing policies that suppress wages, undervalue their currencies and provide industrial subsidies that have perpetuated chronic trade deficits. The implications for

Key points

- Nowhere is US power more visible than in the dominance of the dollar, which accounts for more than half of global foreign exchange reserves.
- The Trump administration believes that a strong dollar has led to domestic and global economic imbalances with trading partners pursuing policies that have perpetuated chronic trade deficits.
- We expect that the dominance of the dollar – long underpinned by trust in the US as a responsible steward – will erode over time.

THE PRICE OF POWER: TARIFFS, THE DOLLAR AND THE NEW AMERICAN ORDER

Subitha Subramaniam, Chief Economist & Partner

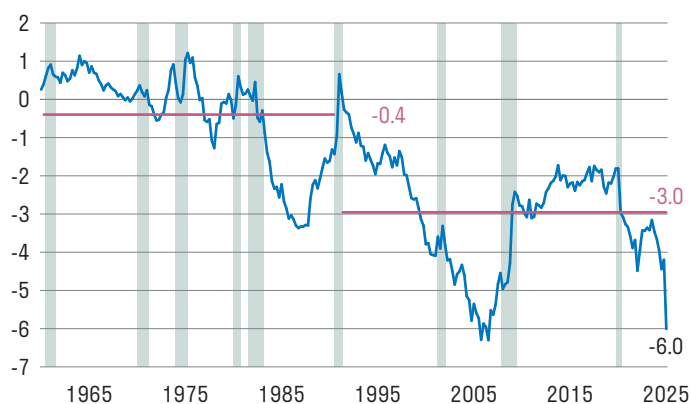
the dollar are nuanced, and arguably conflicting – while the Trump administration widely accepts that the dollar’s reserve currency status is an ‘exorbitant privilege’, the administration simultaneously views the dollar’s strength as an ‘*exorbitant burden*’ which has hollowed out the country’s manufacturing base, led to ‘*excessive financialisation*’ of the economy, increased inequality and facilitated excessive government borrowing.

US claims that the dollar’s overvaluation is the result of mercantilist policies of its trading partners are not without merit. Since joining the WTO, China has deliberately maintained an undervalued exchange rate to cement its position as the world’s manufacturing powerhouse. Given its central role in the broader Asian supply chain, the weak renminbi has exerted downward pressure on the currencies of neighbouring economies as well. The net effect is that the trade-weighted dollar now stands more than two standard deviations above estimates of fair value – a level of misalignment that has played a meaningful role in America’s ballooning trade deficits (chart 2.1).

The administration has made its goals plain: it aims to rebalance the economy away from chronic trade deficits, revive domestic manufacturing, and plug a two trillion-dollar fiscal deficit³ – largely through the catch-all instruments of tariffs and currency depreciation. All the while, it seeks to preserve the benefits of the dollar’s privileged status as the world’s reserve currency.

CHART 2.1 FEATURE OR FLAW

The US has a persistent current account deficit (shown here as a % of GDP).



Source: Macrobond (11.07.25)

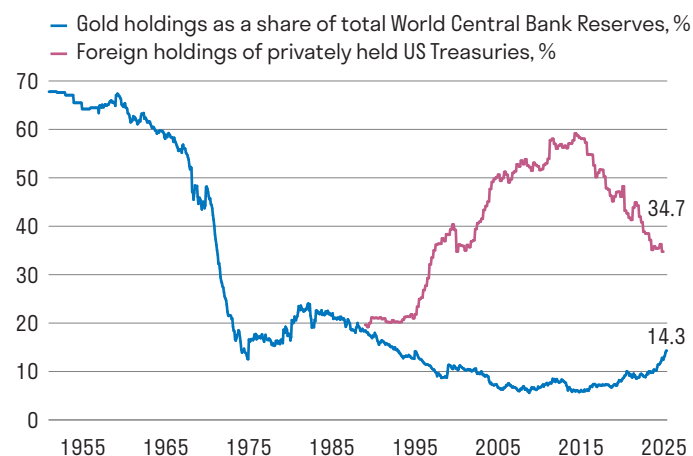
Tariffs – a forever tool?

Three months on from the ‘shock and awe’ of President Trump’s Liberation Day tariff announcement, confusion still reigns over the policy’s endgame. What is taking shape, however, are the broad contours of a *two-tiered tariff regime*. Tier one imposes a flat 10% tariff on all imports, effectively functioning as a toll on foreign manufacturers seeking access to the vast American consumer market. Its primary objective is revenue generation. Tier two consists of targeted tariffs, selectively applied to countries and sectors. These are designed to shield strategic domestic industries, extract concessions from trading partners, or penalise geopolitical adversaries. Together, the system seeks to advance Mr. Trump’s protectionist ambitions while raising fiscal revenue.

Tariffs have already started to deliver meaningful fiscal dividends. For the month of June, tariff revenues came in at \$28bn which amounts to about \$330bn on an annualised basis or 17% of the \$2trn in deficits expected over the next couple of years.⁴ Over time, countries and companies will start to adjust their behaviour; transshipping goods through more favourable tariff regions and shifting production to the US, chipping away some of the revenue benefits.

CHART 2.2 A SHIFT AWAY FROM TREASURIES TO GOLD

Many emerging markets are actively allocating to gold in lieu of Treasuries.



Source: Macrobond (11.07.25)



The greater challenge is that tariffs, once considered relics of a failed era, are fast becoming a permanent instrument of statecraft. Yet, there is little certainty that tariff rates, once imposed, will remain stable and predictable – the ability to adjust rates up or down to reflect evolving international relationships is why they are seen as an attractive tool. This persistent ambiguity is likely to further fragment global trade and accelerate the localisation of supply chains. Over time, this will raise costs, reduce efficiency and erode competitiveness. Nonetheless, the US objective of reducing trade deficits may gradually materialise, as households and businesses adapt their consumption and sourcing patterns in response to the new tariff landscape.

Will the kindness of strangers continue to plug the deficit gap?

A salient feature of America's chronic trade deficits has been the emergence of US Treasury bonds as the world's pre-eminent safe asset. As America's trading partners accumulated trade surpluses, they recycled them into US government debt. Deep and liquid markets for Treasuries, coupled with the Federal Reserve's demonstrated willingness to supply dollar liquidity in times of global stress, made them a natural home for foreign exchange reserves. After all, the US was a benign global hegemon, trusted to safeguard global finance.

Looking forward, foreign appetite for US Treasuries is likely to wane. As global trade increasingly re-orientates away from the US, fewer dollars are being accumulated abroad. Meanwhile, Washington's liberal use of sanctions and tariffs has put much of the emerging world on edge. Many emerging markets are actively allocating to gold in lieu of Treasuries (chart 2.2). Compounding the unease is background chatter in Washington about taxing interest income on Treasuries or forcibly extending the maturity of existing holdings – measures that are steadily eroding confidence in the asset class.

Foreign investors face an additional headwind: America's deteriorating fiscal outlook. The recent passage of the 'One Big Beautiful Bill Act' worsens an already poor fiscal trajectory. Deficits are now expected to reach 7% over the remainder of President Trump's term while debt levels are expected to reach 130% of GDP over the next decade.⁵ With neither party showing much appetite for raising taxes or cutting spending, the likely policy path involves a mix of higher inflation and prolonged interest rate suppression. For long-term foreign investors, this raises the risk of inflation eroding the capital value of their Treasury holdings. An overvalued dollar together with a diminishing appetite to hold US Treasuries will lead to a gradual erosion of the dollar's value against its main trading partners.

A hegemonic shift

After decades of overseeing the global order as a benign hegemon, the US is charting a new course as a transactional and extractive power. No longer content to underwrite multilateralism, Washington is seeking to maximise its leverage, using access to its economy and financial system to extract concessions. This pivot marks a decisive break from the globalised era of the past three decades and will reshape the architecture of trade and finance in meaningful ways.

As the world fragments, countries are likely to turn inward, supply chains are likely to localise, and markets are likely to become more regional. In this new landscape, global bond markets will come under pressure, strained by America's unrestrained fiscal profligacy and the growing need to finance domestic priorities elsewhere. Meanwhile, the dominance of the dollar – long underpinned by trust in the US as a responsible steward – will erode over a multi-year period. Foreign investors are increasingly reassessing the risks of holding the liabilities of an unreliable partner running unsustainable fiscal policies.

In this multipolar world, businesses aligned with national strategic priorities – those in resources, defence, and cybersecurity – stand to gain. As globalisation recedes and geopolitics returns to the fore, economic advantage will accrue not just to the most efficient, but also to the most secure.

¹ <https://www.brookings.edu/articles/the-changing-role-of-the-us-dollar/>

² <https://www.atlanticcouncil.org/content-series/atlantic-council-strategy-paper-series/why-the-us-cannot-afford-to-lose-dollar-dominance>

³ <https://bipartisanpolicy.org/report/deficit-tracker/>

⁴ Treasury Daily Statement, US Treasury Department and Macrobond

⁵ <https://www.ft.com/content/7eca7746-79a4-4eef-92ce-a63f71be58b7>



TOM SANTA-OLALLA
SENIOR ASSOCIATE PARTNER

Strategy spotlight

MANAGING CURRENCY: MORE THAN MEETS THE EYE

Key points

- A company's revenue streams and cost profile, not its geographical listing, define its currency risk.
- For multi-asset portfolios, investors must also consider the implications of commodities being priced in dollars.
- Investors can manage currency risk through hedging strategies, but these are an imperfect solution with both pros and cons.

For much of the past 15 years, the US dollar has been strengthening steadily relative to other currencies. The dollar's role as the world's reserve currency has been a source of strength, compounded by the notion of 'US exceptionalism' as US equity markets have outpaced their peers over the long term, in part due to the dominance of US-listed global technology stocks. Indeed, the S&P 500 hit fresh record highs in June 2025.¹

However, we may be at a turning point for the dollar as explained in Subitha Subramaniam's article on page 9. In this article, we will explore how currency fits into investment decision making. At a stock level, we will look at considerations for companies when importing and exporting goods, the role of commodities priced in dollars, and how we at Sarasin & Partners manage currency risk.

Currency exposure is about more than where a company is listed

A common misconception is that the geographic listing of a company equates to its currency exposure. For instance, it may be assumed that a UK-listed FTSE 100 company that reports in pounds sterling (GBP) is currency neutral for a UK investor. In reality, a company's revenue streams and cost profile define true currency risk.

For example, a company like Compass Group, although listed in London, earns a significant portion of its revenues across the world in US dollars and euros. As such, a UK investor buying Compass Group is indirectly taking on multi-currency exposure, which must be considered as part of the stock's overarching investment thesis.

This was notably demonstrated in the aftermath of the Brexit referendum, a period in which sterling depreciated rapidly. While the outlook for the domestic economy looked uncertain, counterintuitively, the FTSE 100 had a very strong year. This was down, in part, to the global nature of the companies within the index and the translation effect of currency. Multinational companies generating overseas revenues were not only insulated from the weakened domestic outlook, but benefited from sterling weakness as revenues generated overseas in other currencies were consequently worth more in sterling terms.

The same effect is felt elsewhere in the world. For example, lift manufacturer Otis Worldwide is listed on the New York Stock Exchange, but c.70% of its revenues were generated outside the US last year, notably in China and Latin America.² In this case, a weakening dollar is positive for the company's return profile as it means the local emerging market currencies are worth more in dollar terms. When the company converts foreign earnings back into dollars, this may boost potential revenue and profit in its financial statements.

CHART 3.1 US DOLLAR INDEX (2000–2025)

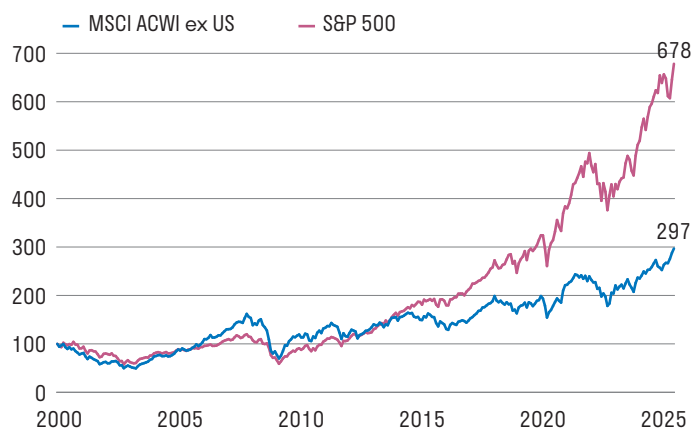
The US Dollar Index measures the strength of the USD versus a basket of foreign currencies.



Source: Macrobond (08.07.25)

CHART 3.2 US EQUITIES VS WORLD EQUITIES (2000–2025)

100 = December 1999



Source: Macrobond (08.07.25)

Exporters vs importers

Currency fluctuations can significantly impact a company's bottom line, depending on whether it is a net exporter or importer.

US exporters benefit from a weak dollar relative to other currencies. A weaker dollar not only means overseas revenues translate into more dollars upon repatriation, but it also improves their competitiveness in global trade.

As a net exporter, China benefits when its currency is weak. Historically, a weak Chinese renminbi has even been a source of tension between the US and China, often cited as a catalyst to the growing trade deficit. Such is the importance of currency, President Donald Trump has previously accused China of currency manipulation.³

US importers, such as retailers like Walmart and The Home Depot, prefer a strong dollar. They pay suppliers in foreign currencies, and a stronger dollar makes those purchases cheaper, thereby improving margins.

Further currency complexity is added when companies import raw materials to build a finished product for export. Many of these will use currency hedging strategies to manage this risk. These activities all feed into the fundamental analysis of an investment opportunity. It is important to assess how a company's supply chain and customer base interact with currency movements. A well-constructed portfolio will have a diverse array of companies that will benefit from varying currency movements.

Commodities: priced in US dollars

A well-diversified portfolio needs to account for the impact of the US dollar on commodity markets. Commodities such as gold, oil, wheat, and industrial metals are typically priced in US dollars.

When the dollar weakens relative to other currencies, commodities become cheaper for foreign buyers, often

increasing global demand, thereby potentially pushing prices up. So, it is possible that commodity markets may rise purely on the back of a weakening dollar – though, in reality there are many other variables at play.

However, if, for example, the price of gold rises in an environment with a weak dollar relative to sterling, the gain for a sterling investor may be partially or fully offset.

How we manage currency risk

At Sarasin & Partners, we manage currency risk in three key ways:

- Currency is a crucial consideration when researching the risks and key drivers of each individual security within a portfolio.
- Currency diversification is important. However, where our bottom-up security selection process has naturally introduced significant currency risk in multi-asset portfolios, we will implement a hedging strategy suitable to the needs of the underlying client.
- We regularly review our hedging policy, considering currency valuations and underlying economic activity to ensure it aligns with a portfolio's strategic objectives.

We approach currency hedging at the overall portfolio level rather than on a stock-by-stock basis. Generally speaking we believe a broad exposure to global currencies is important for diversification, recognising that over the medium to longer term, currency movements should have less of an impact if foreign exchange is incorporated correctly into the longer-term investment thesis.

However, we remain alert to changes within the economic landscape that might affect companies. We implement our currency hedging via over-the-counter (OTC) three-month forward contracts, to provide us with flexibility without introducing significant costs. A forward contract is an obligation today to buy or sell something in the future –

MANAGING CURRENCY RISK: MORE THAN MEETS THE EYE

Tom Santa-Olalla, Senior Associate Partner

THE PROS AND CONS OF CURRENCY HEDGING

ADVANTAGES

- **Reduces currency risk:** helps protect the value of international investments from adverse currency movements.
- **Can provide greater certainty:** reduces volatility from exchange rate fluctuations, which can smooth investment performance.
- **Improves strategic focus:** allows investors to focus on underlying asset performance without being distracted by currency moves.

DISADVANTAGES

- **Cost considerations:** hedging strategies can incur costs depending on interest rate differentials.
- **Opportunity cost:** if a foreign currency strengthens, hedging may prevent the investor from benefiting.
- **Basis risk:** hedging may not perfectly match the currency exposure (e.g. due to timing or imperfect instruments), leading to residual risk.

Source: Sarasin & Partners

what degree) depends on a client portfolio's objectives and requirements. There is no one-size-fits-all solution.

The right approach depends on your investment objectives, time horizon, risk tolerance and potential liabilities. Ultimately, as a long-term global investor, we tend not to make extreme over or underweight allocations, but will often bring currencies to benchmark weights in the run-up to a major regional political event. There will be times when hedging sterling will be beneficial and other times when it will have a negative impact. As investment managers, we see hedging as a risk management tool, as well as an area where, at times, we can add value tactically.

In recent years, we have embraced the opportunities afforded to global investors, and have organically built up meaningful exposure to the US equity market, and as a consequence dollars, across most portfolios. This has meant we have benefited from both the strength of the US market as well as a strong dollar in times of economic uncertainty. More recently, however, we have reduced our overweight dollar exposure in many portfolios to a slight underweight position.

As global dynamics shift, and the economic landscape around us evolves, we continue to analyse the prevailing environment and potential implications of US policy, incorporating direct and indirect currency exposure into our investment analysis and portfolio construction.

¹ <https://www.nytimes.com/2025/06/27/business/sp-500-record-trump.html>

² <https://www.otis.com/documents/d/otis-2/otis-annual-report>

³ <https://edition.cnn.com/2019/08/05/business/china-currency-manipulator-donald-trump>

in this case an asset priced in a specific currency – at a price you both agree on now. This is the industry standard method of currency hedging, though it does not remove relative currency risk.

Given the complexity of currency's impact on a company's return profile, currency hedging is an imperfect art. See the box on this page for the main pros and cons of incorporating a hedging strategy.

To hedge or not to hedge

For global investors, currency is a crucial – if sometimes underappreciated – piece of the investment puzzle. While we have sought to highlight some of the key considerations around currency, whether or not to hedge exposure (and to

Investment focus

RETHINKING GOVERNMENT BONDS: TIME TO BUST SOME MYTHS

It has been a rollercoaster ride for government bonds recently. Once the dependable backbone of a balanced investment portfolio, their credentials have been seriously tested. Are bonds still a safe haven? Can they still smooth the bumps when equity markets wobble? These are fair questions, especially after recent events have turned some long-standing assumptions upside down. Let's take a closer look at what has changed – and what we have learned.

Bonds: once the great diversifier

Many seasoned investors will confidently say that *'government bonds and shares are negatively correlated'*. This means that when equities rise, bonds fall, and vice versa. At least that is the conventional wisdom.

Of course, if that relationship of negative correlations holds, that is a very powerful tool for a multi-asset investor. The investment journey is automatically 'smoother', as the ups and downs in a portfolio's equities and bonds offset one another to some degree.

But is this conventional wisdom really true? And does it still hold today? Let's test this, through the lens of a few market regimes.

First, let's take a journey back to the 1960s and 1970s. Let's call this Regime #1. In that period the relationship between the equities and bonds was, well, pretty neutral. In other words, when equities went up, it was a toss-up whether bonds went up or down. It would be fair to say that in terms of a portfolio diversifier back then, bonds did not really help much. More to the point, they delivered lower returns than cash in that 20-year period, as a result of high inflation¹. With hindsight we can say cash would have been the better companion to equities in a classic 60/40 (60% equities, 40% bonds) balanced portfolio.

Enter the 1980s. From 1980 right through to the turn of the millennium (Regime #2), bonds and equities became positively correlated. In other words, when equities delivered negative returns, more often than not, so did bonds. Not a great combination, you might say. But why? We think the market was still somewhat scarred from the negative bond returns from the prior decade. In short, it took time for trust in bonds to be regained, even if bonds delivered decent returns in this regime. It is fair to say balanced portfolio investors had a mixed experience.

The millennium turned, and with it the fortunes of bonds turned. This is Regime #3. From 2000 to 2020 bonds really came into their own. In what we can now say was a 'golden age' for bonds, they reliably zigged when equities zagged. Even better, bonds delivered handsome total returns too, as inflation and interest rates ground lower². Many investors built portfolios (and their careers) around this dependable dynamic; they simply *knew* that when equities fell bonds would come to the rescue. This became something of a recognised truth.



MICHAEL JERVIS
PORTFOLIO MANAGER, MULTI-ASSET

Key points

- Bonds have long been the bedrock of balanced investment portfolios: offering real returns and a negative correlation to equities – but can we take that for granted?
- The period of 2000-2020 is etched in the memory of investors: This 'golden age' was an unusually favourable period for bonds; history paints a more nuanced picture.
- Resilience demands fresh thinking: More recently bonds have had a wobble. This is not just about a single year (2022), but rather a broader regime shift. At Sarasin, we're challenging assumptions and adjusting – diversifying alongside bonds to build portfolios fit for today's uncertainty.



This is why what has happened more recently has been such a shock.

In figure 4.1, we look at the average correlations for global equities and UK Gilts. We measure correlations using a rolling one-year window of weekly returns, simulating the total returns of UK gilts prior to 1990.

What’s changed since 2020?

The Covid pandemic was the first big test. As markets panicked in early 2020, bonds initially did their usual job – rallying as equities slumped. That comforting negative correlation was still there, boosted by low inflation and generous central bank support.

Then inflation came knocking – hard. Energy prices soared, supply chains got tangled, and prices across the board shot up. In the UK, inflation peaked north of 10%³. The Bank of England, along with other central banks, responded by aggressively hiking interest rates. In just over a year, UK interest rates jumped from 0.1% to 5.25%⁴.

The result? Bonds and shares fell together. Rising bond yields (which means falling prices) put pressure on both asset classes. Suddenly, that tried-and-tested ‘60/40’ portfolio mix didn’t feel so balanced anymore.

But was this not just a one off reset in 2022, before ‘normal service’ resumes? Sadly not.

Of course, we have had a few brief spells since 2022 where bonds have looked useful again as diversifiers – especially when inflation expectations have cooled – but by and large, that classic diversification benefit has been missing in action.

Fast forward to 2025, and we have seen yet more volatility – this time sparked by US politics. Again, any diversification benefit from bonds was short-lived. It was not long before, worries about inflation and fiscal discipline sent yields soaring and with it bond returns tumbling.

How we’re navigating volatility

Naturally, this analysis is an oversimplification of many things, and misses much nuance. But in short, at Sarasin, we are adjusting how we manage risk.

For example, earlier this year, we reduced our exposure to equities, ahead of the worst of the market falls. However, instead of piling into bonds (as the conventional wisdom says) we chose to diversify into gold and cash. Why? Because while bonds still have a role, we are being pickier than ever.

We’re not saying bonds are obsolete. Far from it. But we do need to rethink how and when they work best. They are not always the perfect diversifier. They are not always negatively linked to equities. And they do not always offer shelter in a storm.

Remaining resilient

If the past few years have taught us anything, it is that we cannot take the old bond rules for granted. In fact, the ‘old rules’ relate only to a relatively short period of time. We were treated to a golden 20-year period with bonds delivering positive real returns, excess returns versus cash, and a negative correlation to equities. With hindsight we can say markets have been spoilt, and investors got used to it.

But the world has changed, and so have markets. In response, we need to be more thoughtful, more selective, and maybe a bit more sceptical about some of the assumptions of the last 20 years. Looking further back in history – as we have done in this article – may well offer a useful guide.

It is only by questioning these long-held beliefs that we can build truly resilient, well-diversified portfolios for our clients.

¹ www.federalreservehistory.org/essays/great-inflation

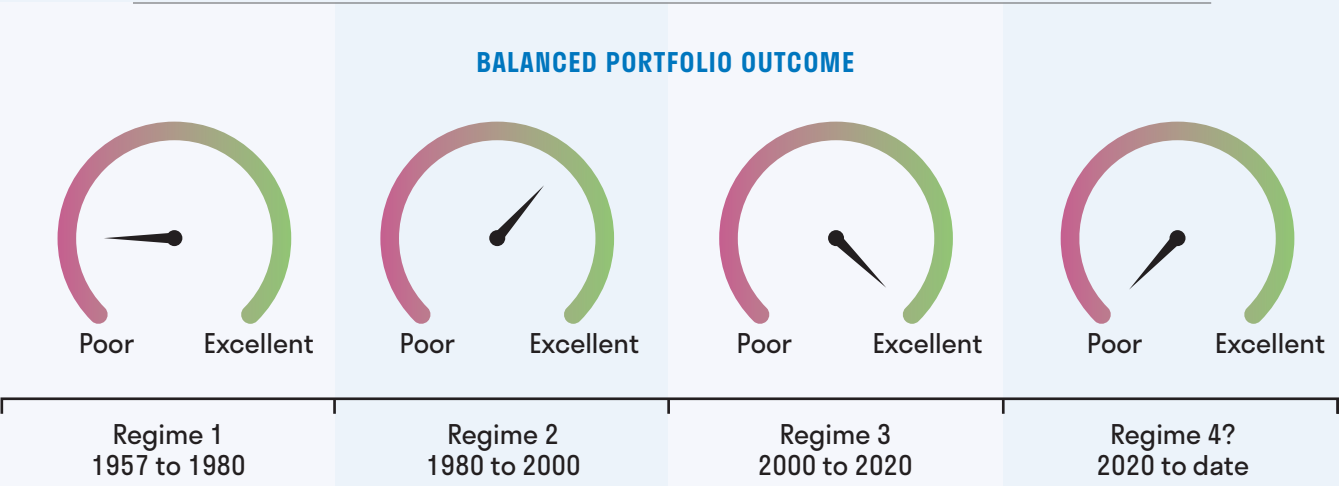
² www.federalreservehistory.org/essays/great-recession-and-its-aftermath

³ <https://commonslibrary.parliament.uk/research-briefings/cbp-9428/>

⁴ www.bankofengland.co.uk/boeapps/database/Bank-Rate.asp

FIGURE 4.1 WHY GILTS DON'T ALWAYS PLAY THE SAME ROLE IN YOUR PORTFOLIO

The relationship between gilts and equities has shifted over time, with implications for multi-asset investors. There's a clear message: the role gilts play in diversification depends on the broader market environment. Understanding these shifts can help set more realistic expectations for future returns and risk management.



Source: Sarasin & Partners

Stewardship focus

SHAPING THE FUTURE OF ETHICAL AI



JULIA SHATIKOVA
OWNERSHIP LEAD

In 2024, Google's Generative AI Gemini became the target of nation-state hackers attempting to bypass safeguards and steal sensitive data. The attackers failed, but only just.¹ Incidents like this highlight how fast AI risks are evolving and why responsible governance cannot wait.

At Sarasin, we see the development and deployment of artificial intelligence (AI) as one of the defining challenges of our time. These technologies offer transformative potential but also come with serious risks. From algorithmic bias and misinformation to cybercrime and loss of privacy, the implications for individuals, societies and markets are profound.

That is why ethical AI has been one of our top stewardship priorities since 2022. We believe investors have a critical role to play in ensuring that AI is developed and used responsibly. Through active engagement, voting and coalition-building, we are pressing companies to improve transparency, adopt stronger safeguards and protect long-term value.

Why AI governance matters

AI technology is neutral. But the use of it is not. Whether powering search engines, social media feeds or enterprise platforms, AI systems reflect the assumptions and priorities of those who build and train them. Without proper oversight, they can entrench discrimination, allow the spread of false information and expose people and institutions to fraud, surveillance or harm.

The risks are no longer theoretical. Social media platform X (formerly Twitter) saw its advertising revenues fall by more than 50% after relaxing its content moderation policies – a shift that coincided with a spike in hate speech and disinformation.² For investors, the message is clear: when AI risks are not properly managed, financial consequences often follow.

Despite impressive progress in recent years, largely resulting from investor pressure, in many companies, the systems for managing those risks remain vulnerable. Ethical principles are often published without clear implementation strategies or board-level oversight. Security testing, when it happens, does not always reveal all the results, and human rights impact assessments (HRIA) are rare. Our goal is to change that by helping companies translate high-level commitments into meaningful action.

Key points

- Sarasin is engaging with major technology companies to ensure that ethical AI principles are supported by practical safeguards and transparent governance.
- Constructive, collaborative engagement has already led to positive outcomes, with firms like ServiceNow and Alphabet enhancing their disclosures and improving their approach to AI risk management.
- As new risks emerge, from the massive spread of deepfake disinformation to autonomous AI agents, we continue to push for stronger oversight, clearer accountability and effective tools to reduce harm.



Explore our AI engagement work and other key stewardship initiatives in our 2024 Stewardship Report, available to download at sarasinandpartners.com/stewardship

SHAPING THE FUTURE OF ETHICAL AI

Julia Shatikova, Ownership Lead

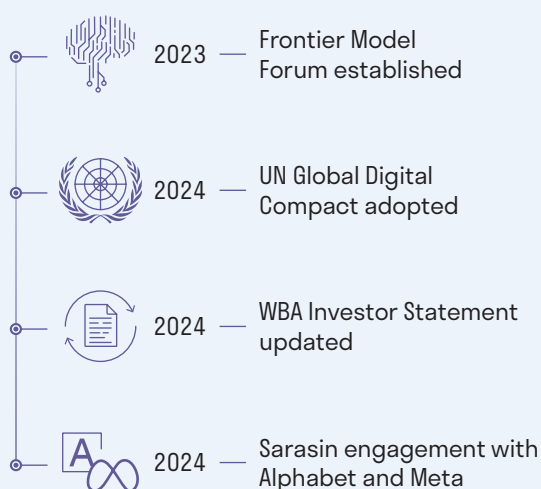
A growing global response

There is growing recognition that AI development and deployment need firmer guardrails. In September 2024, the United Nations adopted the Global Digital Compact, which is the first international framework aimed at promoting a safe and inclusive digital environment. Among its objectives are protecting human rights, ensuring digital inclusion and mitigating the risks associated with AI technologies.

At the investor level, momentum is also building. In February 2024, the World Benchmarking Alliance (WBA) published an updated Investor Statement on Ethical AI, signed by 48 institutions representing \$8.5 trillion in assets under management.² Sarasin was a contributor to this work, calling for clearer disclosure of the tools companies use to operationalise their AI principles, including safety testing, human oversight and human rights due diligence.

To support our engagements, we developed a proprietary matrix of AI-related risks and mitigation tools tailored to specific business models. For developers of generative AI and large language models, we recommend measures such as red teaming (a cybersecurity practice where ethical hackers, known as the red team, simulate real-world cyberattacks to test an organisation's security defences), watermarking, output analysis including HRIA and reinforcement learning from human feedback. These tools provide practical ways to reduce risk and enhance trust.

FIGURE 5.1 THE EVOLVING RESPONSE TO AI RISKS



Source: Sarasin & Partners

Engagement in action

We have taken the lead on AI-related engagements with several high-profile companies through our stewardship programme and our involvement in the WBA's Collective Impact Coalition on Ethical AI. Our focus is to ensure that governance systems and resulting guardrails keep pace with the rapid evolution of AI.

Alphabet: confronting cyber threats and disinformation

Alphabet is the parent company of Google and YouTube, and widely viewed as a front-runner in AI development. It has established ethics councils, published responsible AI frameworks, and co-founded the Frontier Model Forum to promote safe practices.

Yet significant risks remain. In early 2024, we raised concerns about the malicious use of Alphabet's Gemini model. Shortly afterwards, Google published a report showing how actors linked to China, Russia, Iran and North Korea had attempted to exploit Gemini for phishing, cybercrime and disinformation.³

While many of Google's safeguards held up, the incident underlined the importance of ongoing risk assessment. We have since called for more systematic use of HRIAs and stronger oversight of YouTube's content moderation practices.

As lead investors in Alphabet's engagement through the WBA, we coordinated a collective letter to senior executives, voted against multiple directors at the 2024 AGM, and supported AI-related shareholder proposals calling for improved governance and transparency. Alphabet responded with links to resources, including updates on its AI principles, privacy practices and red teaming protocols. It is a welcome step, though several concerns remain. We continue our outreach for collective engagement with the company.

Meta: pushing for accountability amid policy shifts

While Alphabet has shown a degree of transparency, our experience with Meta illustrates how progress can quickly unravel. In September 2024, we participated in a joint investor call with Meta's governance team; we then arranged a letter, backed by \$3.6 trillion in assets under management, urging greater clarity on content moderation, child safety, privacy and data training practices.⁴

Meta initially responded constructively. But in early 2025, the tone shifted. Following leadership changes at board level, the company dismantled its fact-checking programme in the US and replaced it with a crowdsourced moderation tool known as Community Notes.⁵

Community Notes has a mixed record. On the X platform, where the tool was first introduced, independent analysis found that 74% of misleading posts remained uncorrected, and when notes were added, false content continued to receive far more views than corrections.⁶



We are now evaluating whether Meta’s changes represent a rollback of earlier reforms. The lack of formal HRIAs and reduced transparency around data use have heightened our concerns. We are following up to assess whether the company remains committed to responsible AI governance, and will continue to advocate for stronger protections against disinformation, bias and privacy breaches.

In May 2025, we pre-declared our votes at the Meta AGM on our website: we voted against five of its directors on accountability concerns, the executive remuneration and the auditor, we supported one-year Say on Pay frequency and eight shareholder resolutions, including five asking for more efforts towards ethical AI.⁷

ServiceNow: constructive dialogue and positive steps

In contrast to the challenges we have encountered with some consumer-facing platforms, our engagement with enterprise software provider ServiceNow has been constructive and encouraging.

As lead investors in the WBA’s engagement, we raised concerns about how ServiceNow’s generative AI tools could be used in ways that introduce bias or lack transparency. Following our outreach, the company published its Human-Centred Responsible AI Guidelines and shared details of its governance approach.

ServiceNow’s model emphasises shared responsibility, with mechanisms for customers to participate in AI risk assessment and mitigation. These include detailed model cards, human oversight systems, differentiated access controls and risk evaluation tools. During our engagement call, we also discussed the company’s collaboration with academic institutions and standards bodies such as the US National Institute of Standards & Technology.

We recommended greater clarity on board-level governance and encouraged the company to share real-world examples and independent evaluations. ServiceNow was receptive to our feedback and committed to further improvements. We will continue to monitor progress and support its efforts to embed responsible AI practices.

How we exert influence

Our stewardship work combines direct dialogue with the board or senior company leadership, coordinated action through investor coalitions, and the strategic use of voting rights. We also contribute to public consultations and frameworks that shape global norms.

Through these levers, we aim to move companies from words to action – from publishing AI principles to implementing meaningful safeguards that stand up to scrutiny.

AI continues to evolve rapidly. One emerging focus for our engagement is the rise of autonomous AI agents – systems capable of making decisions and acting independently. These

FIGURE 5.2 PROGRESS SO FAR (AS OF SEPTEMBER 2024)



Source: World Benchmarking Alliance
www.worldbenchmarkingalliance.org/news/new-data-on-ethical-ai-to-ring-in-the-global-digital-compact

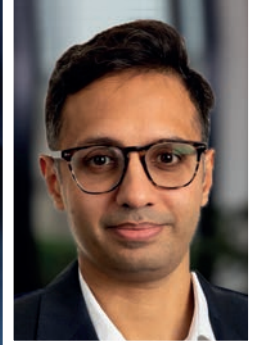
technologies promise new efficiencies, but also introduce major risks. Can such agents be trusted? Who is accountable if they cause harm? Could they be hijacked or manipulated?

We will be pressing companies to put in place robust guardrails, including anti-hijack safeguards, transparency requirements and clearer lines of accountability.

AI is already shaping the way we work, communicate and interact with the world. The decisions made today will determine whether these technologies enhance human wellbeing or undermine it.

At Sarasin, we believe investors have both the responsibility and the influence to shape a safer AI future. Through persistent engagement, coalition-building and public advocacy, we will continue to push for ethical AI, ensuring technology serves society, not the other way around.

¹ <https://cloud.google.com/blog/topics/threat-intelligence/adversarial-misuse-generative-ai>
² www.worldbenchmarkingalliance.org/impact/investor-statement-for-ethical-ai-2024/
³ www.reuters.com/technology/us-ad-revenue-musks-x-declined-each-month-since-takeover-data-2023-10-04/
⁴ <https://sarasinandpartners.com/stewardship-post/meta-platforms-pre-declaration-of-votes/>
⁵ <https://about.fb.com/news/2025/01/meta-more-speech-fewer-mistakes/>
⁶ <https://counterhate.com/research/rated-not-helpful-x-community-notes/>
⁷ <https://sarasinandpartners.com/stewardship-post/meta-platforms-pre-declaration-of-votes/>



**IANJIT
BHATTI**

GLOBAL EQUITIES
ANALYST



**KWAI SAN
WONG**

GLOBAL EQUITIES
ANALYST

Thematic investing **BEYOND THE HYPE: AI IS NO LONGER A STORY ABOUT POTENTIAL**

Key points

- AI is moving from hype to hard deployment, with clear momentum in both infrastructure and enterprise use cases.
- Cybersecurity, and particularly network security, is becoming a key area of investment and consolidation.
- Sarasin aims to find the most compelling tech stock opportunities through the lens of our themes, including Digitalisation and Security.

Recognising significant technological progress in the fields of AI and cybersecurity is a key component of two of our investment themes – Digitalisation and Security. To see how these themes are evolving on the ground, we travelled to Silicon Valley in June 2025 to meet with some of the world's leading technology companies. With over 40 meetings across sectors including enterprise software, cloud infrastructure, semiconductors and cybersecurity, the visit offered an invaluable perspective on what is really happening beyond the headlines.

Flying into San Francisco over Santa Clara, it is hard to imagine that the valley now home to the world's largest technology companies was once occupied by farmers tending sprawling orange groves. Silicon Valley has welcomed waves of innovation going all the way back to the 1950s, with the semiconductor pioneers that settled the valley now living side by side with software tycoons and social media moguls.

Landing at San Francisco International Airport and heading into the city centre, it is difficult to miss the signs pointing to the next wave of innovation. Nearly every billboard we passed was advertising some kind of AI service, providing a striking visual cue to the technological arms race playing out in real time across the Bay. At almost every stop on our trip, from Microsoft to Nvidia to ServiceNow, the message was clear: AI is no longer just a story of potential. AI has arrived.

Enterprise software: sharing AI productivity gains with customers

Our interactions with companies during the trip helped frame our AI investment strategy for enterprise software. We believe that enterprise vendors with defensible market positions, domain specific knowledge, and access to proprietary data sets are well placed for the AI era. The combination of domain expertise and data will enable these companies to develop solutions that make customers more productive. Additionally, vendors with high and defensible market share should be able to share the value of efficiency gains with customers.

For instance, ServiceNow's raison d'être is enterprise automation, helping customers deliver more effective business processes and reduce costs, and AI is a natural extension of the work it has been doing for the past two decades. ServiceNow is the dominant vendor of business process automation software to large enterprises, with a best-in-class retention rate, and it has a decade's worth of data and experience in automating the enterprise.¹ During our meeting, the

company informed us that it has been testing and refining its AI agent technology internally before releasing it to the public. The results are \$350m in cost savings from increased productivity and another \$100m in savings from reduced hiring. ServiceNow began shipping its AI agents to customers in May and is aiming to capture 10% of the productivity gains its products deliver to clients.

Similarly, Microsoft is at the leading edge of AI commercialisation, providing its Copilot AI companion software to office workers and supplying the tools and infrastructure for enterprise developers to build and run their own AI applications. Given Microsoft's unique relationship with businesses, acting as the system of record for many companies, it is the natural partner when businesses are looking to develop their own AI applications. Microsoft's customers have been using its cloud services to develop proof-of-concept AI projects over the last year. The firm told us that many of those projects are now moving into production, with consumer-facing use cases typically monetising first.

Recent analysis from leading payments group Stripe reveals the acceleration is real. Using data from its annual letter, Stripe noted that in 2024 the top 100 AI startups reached \$5m in annualised revenue in just 24 months, compared to around 37 months for the top 100 SaaS companies in 2018.² The company's analysis suggests AI startups now hit \$1m annualised revenue in a median 11 months, versus 15 months for software as a service (SaaS) firms, and can reach \$30m annualised revenue in just 20 months, which is approximately five times faster.³ In short: real monetisation is accelerating and then some.

Infrastructure buildout: powering the AI boom

All of this AI activity is driving immense demand for infrastructure. Nvidia, the most prominent beneficiary, sees a surge in inference workloads and a coming wave of demand for reasoning models that could expand the addressable market by 20 times. Developers are not just asking for AI capacity; they want Nvidia's full software stack.

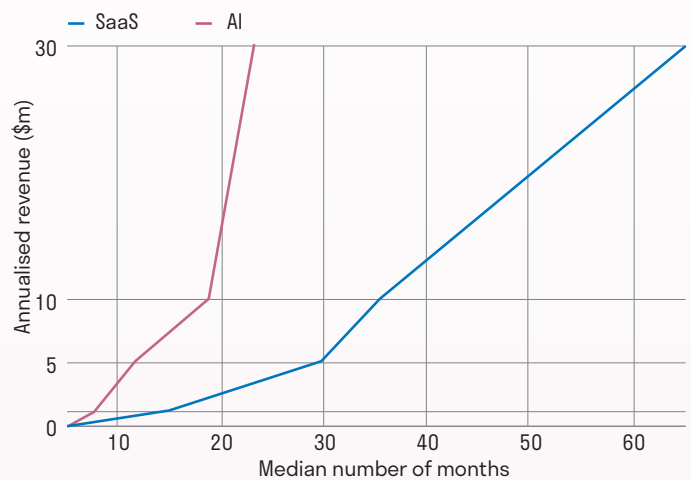
Nvidia's strategy has shifted from being a hardware supplier to an AI platform provider. Increasingly, developers are choosing Nvidia's stack even when hosted on third-party clouds. This trend suggests that market leadership in this space is not just about having the fastest chips but also about ecosystem control and long-term defensibility.

The company also highlighted a striking observation: customers are now asking how quickly they can scale AI workloads, not whether they should. Return on investment is starting to materialise, especially in areas such as customer engagement, code generation, and process automation.

That infrastructure demand brings with it new constraints. One of the biggest is power. Microsoft is tackling this challenge head-on, signing 20-year clean energy agreements to support its growing estate of AI-enabled data centres. This long-term planning underscores a broader trend we observed throughout the trip: companies are not just scaling quickly, but are also building deliberately.

CHART 6.1 AI STARTUPS ARE BREAKING REVENUE RECORDS

Top AI companies are making money much faster than previous waves of equivalent software as a service (SaaS) companies.



Source: Stripe and FT (27.09.24)

Cybersecurity: a growing priority for CISOs

Enterprises and governments are locked in a perpetual battle against state-sponsored entities, cybercriminals and hackers attempting to disrupt their operations, with AI opening up new attack vectors for malicious actors to exploit. Consequently, cybersecurity has become one of the highest-priorities for Chief Information Security Officers (CISOs) to work into their IT budgets.

During our trip, we had the pleasure to meet with Ken Xie, co-founder and CEO of cybersecurity vendor Fortinet, a network security vendor, providing the first line of defence against external attackers. During our meeting, Ken laid out his vision for consolidation in network security and emphasised how he focuses on making the right decisions for the long term.

Protecting the network requires placing hardware in the data centre. As new threats emerge, new layers of defence are required, but stuffing the data centre with boxes (physical devices installed to perform specific network security functions) to protect against each threat would grind the network to a halt. Consequently, there is a strong incentive to consolidate new network security applications into a box from a single vendor, with Fortinet expecting to benefit from this trend for many years to come.

Some 16 years after Fortinet's initial public offering, Ken still owns 8% of Fortinet's stock, with his brother and co-founder Michael holding 7%. As owner operators, management is focused on making the right decisions for the long-term success of Fortinet. Ken stated that while competitors may use acquisition to gain new technological capabilities quickly, Fortinet focuses on developing its technology in house. While this may mean being slower to market, the company believes its integrated product development ultimately leads to better security for customers.

BEYOND THE HYPE: AI IS NO LONGER A STORY ABOUT POTENTIAL

Ianjit Bhatti and Kwai San Wong, Analysts – Global Equities

KEY AI TRANSFORMATION INSIGHTS FROM SILICON VALLEY

Infrastructure, enterprise software and cybersecurity are leading the next wave of innovation.

AI in action



98% ServiceNow customer retention



\$350m productivity savings from ServiceNow using its own AI agents



20x Nvidia's forecast for AI inference market growth



35% faster: AI startups reaching \$5m annualised revenues vs SaaS companies

Cybersecurity shifts



#1 priority: cybersecurity named top CISO spending area



16 years since Fortinet IPO shows longevity and stability



fewer boxes: demand rising for consolidated network security solutions



20 years: Microsoft's clean energy deals for AI data centres

Source: Sarasin & Partners

Why this matters for investors

The conversations we had reinforced our conviction that the biggest beneficiaries of AI are the enablers: infrastructure providers and enterprise platforms. These companies benefit from:

- Early real-world monetisation
- Defensible competitive advantages (data, network effects, customer lock-in)
- Sticky enterprise relationships

Whether it is Microsoft signing 20-year clean power deals, Nvidia building demand for its full-stack AI platform, or ServiceNow upselling AI agents, the common theme is long-term strategic execution.

From road trip to investment conviction

Our trip to the US reinforced our conviction in two important themes: the real-world deployment of AI, and the growing need for robust, scalable cybersecurity infrastructure.

The companies we met are not waiting for regulation or market consensus. They are moving ahead, investing, deploying and delivering products that are already reshaping the enterprise landscape.

As investors, we believe the AI opportunity is not just about the next viral app. It is about the infrastructure, security, and systems that make widespread adoption possible. The real value may lie in companies that remain out of the spotlight, but are powering the platforms of the future.

We left Silicon Valley encouraged by what we saw, not just by the scale of ambition, but by the clarity of vision. In a world increasingly shaped by algorithms, platforms and data, the future belongs to those who build what others depend on.

¹ <https://finance.yahoo.com/news/three-reasons-investors-love-servicenow-141839070.html>

² <https://techcrunch.com/2025/02/27/stripe-ceo-says-ai-startups-are-growing-faster-than-saas-ever-did-and-calling-them-wrappers-misses-the-point/>

³ ft.com/content/a9a192e3-bfbc-461e-a4f3-112e63d0bb33

EVENTS

Charity investment training

The first half of the year has seen good attendance at our Charity Investment Training, which we run in conjunction with Charity Finance Group. This is an opportunity for trustees and those who work with charities to gain further knowledge and insights into investment options that may suit their charity.

The two virtual courses attracted 132 attendees and the three courses in our Juxon House office 37. Our summer regional training was very popular with 42 attending in York and 27 attending in Cambridge. More courses are available in the autumn with our regional training being in Cardiff.

For more details and the ability to register for the Foundation and Advanced courses, please visit sarasinandpartners.com/charity/training-events/



- 10 September** Intermediaries Rooftop Party, Juxon House
- 16 September** Seminar: Shaping Corporate Accountability on Ethical AI, Juxon House
- 29 September to 2 October** Association of Provincial Bursars (APB) Conference, Hoddesdon
- 9 October** Charity Investment Training and Economic Update, Cardiff
- 9 October** UKCF Chairs Day, Juxon House
- 16 October** Charity Finance Summit, London
- 11 November 14.00 – 15.30** Sarasin & Partners Charity Fund Annual Review (virtual event)
- TBC November** Impact Investment Workshop, Juxon House



The textbook to our Charity Investment Training is our *Compendium of investment*. You can order a soft copy online at sarasinandpartners.com/compendium/

2025 INVESTMENT TRAINING IN CONJUNCTION WITH CHARITY FINANCE GROUP

This training is free of charge

Foundation training

VIRTUAL SESSIONS

7 October

IN-PERSON SESSIONS – LONDON

14 October

Advanced training

VIRTUAL SESSIONS

18 November

IN-PERSON SESSIONS – LONDON

9 September and 4 November

How to register

To join any of our events or for more information, please scan below, visit our website, sarasinandpartners.com, or contact our events team at events@sarasin.co.uk.



Save the date

Spring Investment Seminars 2026

Royal Society of Medicine

Wednesday 11 March: 14.00 – 18.00 / Tuesday 17 March: 10.00 – 14.00

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