

SUSTAINABLE FUNDS

Q3 2026

COMMENTARY

Please note: The following commentary applies to all Sustainable Funds in our product suite, which includes: **Sustainable Growth 100 Fund**, the **Sustainable Growth 80/20 Fund**, the **Sustainable Balanced 60/40 Fund**, the **Sustainable Balanced 40/60 Fund**, the **Sustainable Income 20/80 Fund** and the **Sustainable Income 100 Fund**.

While portfolio transactions and positioning information may apply to all Sustainable Funds, it will be applied differently depending on the asset allocation parameters of each Sustainable Funds' investment strategy. Also note that Sustainable Growth 100 Fund and Sustainable Income 100 Fund are each an equity only or fixed income only fund, respectively, and the portfolio transactions commentary regarding the opposite asset class will not be relevant to those funds.

Market Overview

Global financial market performance was volatile and mixed across asset classes in the third calendar quarter of 2026. Positive economic momentum and strength in earnings growth supporting gains across equities despite renewed geopolitical uncertainty. Persistent concerns surrounding the outlook for inflation, in no small way exacerbated by the renewed upward pressure on energy prices following the collapse of negotiations and ongoing war in the Middle East, drove notably hawkish turns from global central banks over the summer that saw many across Developed Markets hike policy rates which put upward pressure on rates and weighed on fixed income.

In equities, the MSCI World Index gained a further 1.9% (Canadian dollar terms) over the three months ended September although the advance was narrow and the path more turbulent compared with the sharp 15.6% rally recorded in Q2. The gains came mostly from large technology and semiconductor companies tied to artificial intelligence which led to outperformance from the U.S. (S&P 500 Index +2.4% in CAD); stocks in Canada registered somewhat more modest gains (S&P/TSX Composite Index +1.6%) supported by rising while those in Europe, Australasia & the Far East posted positive, albeit fairly muted, gains (MSCI EAFE Index +0.9% in CAD). Emerging Market equities lagged (MSCI Emerging Markets Index -0.3% in CAD) largely reflecting the impact of the semiconductor selloff early in the quarter.

Global bond yields rose significantly over the quarter and ended September at their highest levels in two decades. As a result, the broad-based FTSE Canada Universe Bond Index dropped 3.0% in Q3, marking its worst quarterly performance in three years (and sixth worst quarter of the last 20 years). More rate-sensitive segments of the market underperformed, with the FTSE Canada Long-Term Overall Bond Index falling 6.3% and the FTSE Canada All Government Bond Index declining 3.2%. The FTSE Canada Short Term Overall Bond Index and the FTSE Canada All Corporate Bond Index fared somewhat better, declining 0.9% and 2.1%, respectively, but still finished the period in the red.

Performance Attribution

The suite of Sustainable Fund's (the "Funds") overweight exposure to top performing Global Equity versus their respective Strategic Asset Allocation made a positive contribution to relative performance in Q3, as did the continued underweight allocation to laggard Fixed Income through the quarter and the tilt toward credit in allocations therein. These effects, however, were more than offset by the underperformance of some Equity strategies held in the Funds' portfolios, particular those allocations to thematic ESG strategies. The net result was the tactical multi-asset portfolios trailed their blended benchmarks over the three months ended September.

Portfolio Transactions

No materials changes were made to Equity and Fixed Income allocations across the Funds in Q3. The Manager remained comfortable with its risk exposures in the high uncertainty and high interest rate environment where markets are likely to remain volatile but ultimately continue to perform well against a generally constructive economic backdrop with strong corporate earnings.

Portfolio Outlook & Positioning

As has been the refrain over much of the last year, the dataflow continues to be broadly positive despite the ongoing challenges and uncertainties, providing continued indications of generally sustained economic momentum supported by ongoing resiliency in consumer spending, an upswing in business investments in information technology and significant government spending plans.

Earnings have continued to come in strong and analysts have been scaling up their expectations for growth in the months to come in spite of the geopolitical headwinds which in turn provides a fundamental support to risk assets.

With that said, the road ahead looks to continue to be lined with challenges. Domestic politics in the U.S. will return to the forefront of discussions with the looming midterm elections carrying significant implications for the remaining half of the President's term. Geopolitical tensions remain elevated as wars continue in the Middle East and Ukraine with no sign of imminent resolutions.

The sustained upward pressure on commodity prices (particularly for energy products) is filtering into prices pressures which combined with the sustained economic growth momentum is skewing inflation expectations higher. As a result, central banks globally are likely to maintain their recently adopted hawkish biases, which at a minimum suggests policy rates staying at their current levels for longer.

While the all-in yield on offer on bonds makes the asset class arguably the most attractive it has been in decades from a return and balanced portfolio diversification perspective, the near-term upside risks for rates supports the Manager's continued preference to remain underweight the Fixed Income and below benchmark duration within the asset class.

For Equity, while policy uncertainty and geopolitical risk are likely to remain elevated for the coming months and keep markets vulnerable to bouts of volatility, as long as the underlying drivers of economic and earnings growth remain broadly intact — and the dataflow suggests are — the most likely scenario appears to be one in which markets that remain fairly reasonably valued outside some expensive pockets continue to climb the wall of worry.

The recent return of narrow leadership in the market if sustained represents a cause for concern, as does the sustainability of profits tied to information technology investments — though the dataflow does suggest trends are set to shift in the near future.

With respect to thematic allocations, we believe that the outlook for energy transition themes remains positive.

The ongoing war with Iran has put energy security front and centre as countries re-evaluate both their sources of generating capacity and global supply chains. Europe and other regions are exploring options to further increase renewables and nuclear to protect against future supply chain shocks.

These trends support the construct that the forces shaping the energy transition in 2026 are increasingly economic, technological and physical. Clean energy investment rebounded in 2025 and is continuing to build, driven largely by surging electricity demand from AI and data centers. This demand is resulting in capital flows into grid expansion, battery storage and power management software, alongside renewed interest in longer dated solutions such as nuclear.

At the same time, infrastructure bottlenecks (i.e. grid interconnection backlogs) are emerging as binding constraints. As a result, companies and investors are increasingly focused on physical resilience and energy system reliability regardless of U.S. policy direction.

Overall, the Manager remains comfortable with the overall risk exposures. The asset mix remains overweight Equity with a continued bias toward Global quality-focused strategies. Fixed Income allocations maintain a tilt to shorter duration credit and therefore carry a below-benchmark duration.

The Manager will continue to monitor economic and market developments closely and stands ready to tactically exploit opportunities that may present themselves.

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Values are reported in CAD, unless stated otherwise.

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