RBC BlueBay
Asset Management

RBC European Equity Responsible Investment Report 2026

Marketing communication

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Introduction: competitiveness versus regulation

2025 was a year dogged by uncertainty – geopolitical, economic, and regulatory – and the one constant was flux. Whether or not 2026 follows in a similar vein is likely to be determined by the actions of the White House, as well as the slow but inevitable re-alignment of interests that are a result of the international compact of the last 50 years being dismantled.

From a sustainability perspective this has created friction. Not just because of a change in the overall zeitgeist, but because as developed economies continue to struggle with challenging fiscal conditions, there is now an economic imperative to ensure that sustainability efforts fit within a broader strategic narrative. This narrative in Europe is neatly summarised as 'competitiveness', where a genuine determination not to abandon sustainability efforts at both a national and supra-national level must be married up to an adjustment to a new geopolitical reality, and the need to spur growth and competition throughout the bloc.

2025 was a year of policy proposal, best exemplified by the European Commission's 10 omnibus simplification packages covering sustainability, chemicals, defence, digital, and agricultural policies. 2026 – or so investors hope – is set to deliver regulatory certainty, something lacking in the last few years for both investors and businesses.

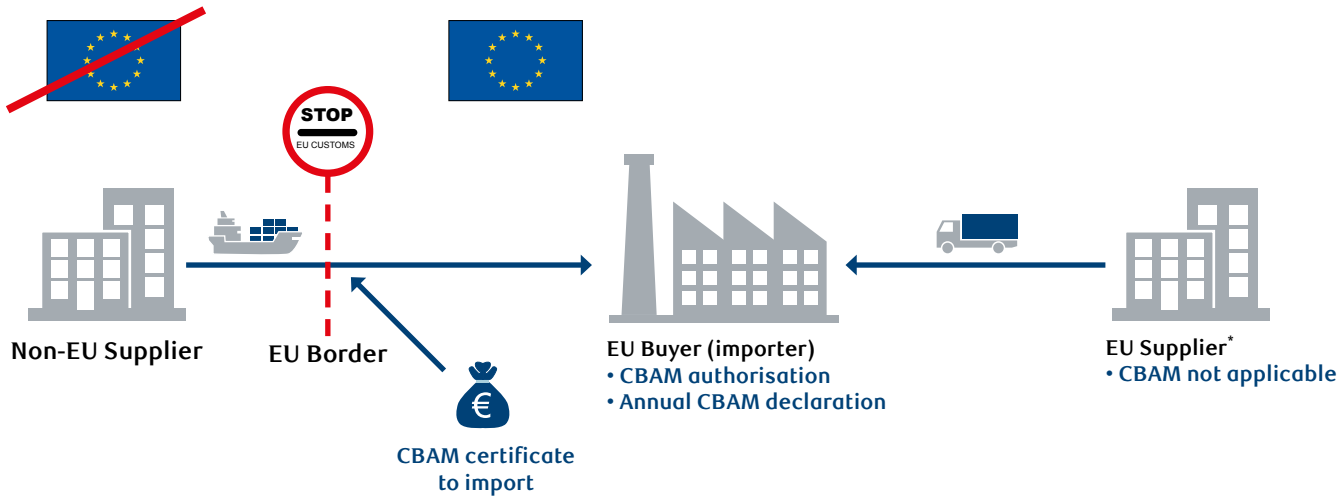
Perhaps the most significant immediate regulatory milestone for 2026 is the full implementation of the Carbon Border Adjustment Mechanism (CBAM), which launched on 1st January (Figure 1).

This groundbreaking policy puts a carbon price on imports from cement, aluminium, iron & steel, fertilizer, hydrogen, and power sectors, fundamentally altering global trade dynamics and establishing the EU as a global leader in carbon pricing mechanisms. Uniquely among European sustainability regulations that were simplified in 2025, CBAM has become more rigorous and expansive, to the chagrin of some, and the hope of others.

> **"Perhaps the most significant immediate regulatory milestone for 2026 is the full implementation of the Carbon Border Adjustment Mechanism (CBAM)."**

In our view the financial implications of CBAM are substantial and largely underappreciated by investors. For EU steel producers using blast furnaces, additional carbon costs could reach 21% of steel prices assuming EUR150 carbon pricing by 2030. This cost pressure is already driving industrial decarbonisation investment, with Asia-Pacific seeing USD12.7 billion in major industrial decarbonisation projects announced between April and September 2025, representing 85% of global investment in that timeframe[1].

Figure 1: EU Carbon Border Adjustment Mechanism simplified illustration



Source: The Conference Board, 2022. *Includes goods originating from Iceland, Liechtenstein, Norway and Switzerland.

[1] Berenberg, 2026.

The most transformative regulatory development for the financial services sector in 2026 will be the ongoing implementation of SFDR 2.0, representing the most comprehensive overhaul of sustainable finance regulation in European history. Published by the European Commission on 20th November 2025, these proposals fundamentally reimagine how sustainable investment products are conceived, regulated, and marketed across the EU.

The reform marks a shift from the current disclosure-based regime to a product categorisation framework, directly addressing what regulators acknowledged as "several shortcomings" in the original legislation. The Commission explicitly noted that "the complex disclosure requirements under Articles 8 and 9 of the SFDR are deleted, reflecting widespread industry frustration with a system that became synonymous with greenwashing concerns and regulatory arbitrage.

The EU Deforestation Regulation (EUDR) will finally take effect on 30th December 2026, after years of delays and obfuscation. Revisions adopted in December 2025 introduce a "downstream operators" category with reduced due diligence requirements, extend compliance timelines for micro and small enterprises to June 30, 2027, and remove printed products from scope.

However, concerns persist regarding the regulation's credibility. The country benchmarking system designates only four countries as "high risk" (Russia, Myanmar, North Korea, and Belarus), despite these accounting for just one-fifth of global tree loss between 2021-2024, while countries with substantial timber production or tree cover loss, such as Canada and China, are classified as "low risk". This perhaps highlights the inherent friction between 'objective' sustainability regulatory efforts, and the subjective nature of politics in the age we live in. With further reviews possible, time will tell whether geopolitical events hamper implementation of the regulations further.

The regulatory landscape emerging in 2026 represents more than incremental reform – it constitutes a fundamental realignment of how European markets approach sustainability, competitiveness, and global trade. The convergence of CBAM implementation, SFDR 2.0 development, corporate reporting simplification, and infrastructure investment creates a new ecosystem where sustainability credentials become increasingly valuable competitive assets.

This transformation reflects a broader strategic recognition that European sustainability leadership requires balancing environmental objectives with economic competitiveness and geopolitical security.

The sustainable sectors and regulations best positioned for success are those demonstrating clear alignment with protectionism, security, and independence rather than purely environmental motivations.

For businesses, 2026 represents a critical transition from regulatory uncertainty to strategic implementation. Success will be measured not just in compliance achievements, but in how effectively organisations leverage these frameworks to achieve genuine sustainability objectives while maintaining competitive advantage in an increasingly regulated and interconnected global marketplace.

The regulatory certainty emerging in 2026 provides the foundation for long-term strategic planning, though businesses must recognise this represents an implementation phase rather than completion of the European regulatory agenda. The Commission's indication of additional omnibus packages addressing automotive, environment, taxation, and other sectors suggests continued evolution requiring adaptive corporate strategies and sustained regulatory monitoring capabilities.

In the short term, some might chafe at what they see as the archetypal European process of regulating while others progress. However, this would be a mistake. The broader adoption of competitiveness through implementation of the Draghi reforms are implicit in many of these regulatory changes. That should bring many benefits when viewed through the lens of Europe attempting to gain a surer footing in an increasingly multi-polar world. When combined with regulatory certainty – perhaps the key component in business sentiment and investment – this may prove to be a springboard for European companies to invest further and faster than they have in the last few years.

Our ESG philosophy and process

Short-termism and a view from certain investors that ESG is a separate assessment criterion are both market weaknesses. We believe that ESG criteria should be considered in the same way as traditional financial criteria in terms of their capacity to affect shareholder value and therefore long-term investment performance.

Some ESG criteria are more relevant to certain industries and sectors, and we therefore believe that investors cannot use a 'one-size-fits-all' approach to ESG analysis and integration. Investment screens can serve a useful purpose for investment managers who are required to screen-out or include certain sectors. However, we believe that through a bottom-up process, without an over-reliance on external data, active managers making informed, explicit decisions can add significant value for investors.

We look at companies through three lenses: Operational Quality, Competitive Advantages, and Material Issue Management (ESG). The last of these focuses on those ESG factors that we believe are most material and pertinent to the successful performance of the business being analysed.

Rather than applying broad analytics, we prefer to look on a fundamental, bottom-up basis at those factors which, based on our proprietary material issue analysis and scoring, matter most to a business and its stakeholders. An example of how these factors may be analysed on a company-by-company basis is shown in Figure 2.

The results of this analysis are then integrated into our financial analysis and, ultimately, into the decision to invest – or not – in a business. We remain cognisant that including material ESG factors in our fundamental analysis not only serves as an excellent risk management tool but, just as importantly, can provide us with opportunities both at a corporate and portfolio management level. We believe that this mindset, married to our skillset as active managers, is how we can benefit our investors in the long run.

"We believe that investors cannot use a 'one-size-fits-all' approach to ESG analysis and integration."

Figure 2: RBC GAM European Equity investment process – material issue management (ESG)

Category	Luxury goods - Company A	Capital goods - Company B
Leadership and goverance	▪ Board composition ▪ Executive compensation ▪ Management quality ▪ Disclosure	▪ Board composition ▪ Executive compensation ▪ Management quality ▪ Disclosure
Social capital	▪ Product quality and safety ▪ Data security	▪ Product quality and safety
Human capital	▪ Labour practices	▪ Employee health and safety
Business model and innovation	▪ Supply chain management ▪ Materials sourcing and efficiency	▪ Product design and lifecycle management ▪ Materials sourcing and efficiency
Environmental	▪ Water and wastewater management ▪ Energy management	▪ Energy management ▪ GHG emissions

--- Changing factors in our ESG risk management research

Source: RBC GAM, as at December 2025.

Portfolio ESG themes and events in 2025

Small patients, big breakthrough

In July, Swiss pharmaceutical company Novartis received approval for the first malaria medicine for newborn babies and young infants[2]. Before this notable event, there was no approved treatment for children under 4.5 kg, meaning a significant group was vulnerable to contracting this deadly disease. With the introduction of Coartem Baby, on a largely not-for-profit basis, Novartis will be able increase access in regions where malaria is an endemic.

Building a greener future

In October, Heidelberg Materials delivered evoZero for the first time to enable sustainable construction projects. EvoZero is the world's first near-zero carbon captured cement, enabling net-zero concrete. The company opened the world's first industrial-scale carbon, capture and storage facility in the cement industry in Brevik, Norway a few months earlier. The facility is expected to capture around 400,000 tonnes of CO_2 per year to enable the production of evoZero[3].

Measuring up to the challenge

Hexagon, a global leader in measurement technologies, is enabling one the of the most ambitious infrastructure projects ever seen. The company's surveying solutions are being used by Skanska in the construction of a 27-kilometre subsea tunnel in Norway that will be the longest and deepest of its kind. With no room for error, the technology will also allow Skanska to reduce the time, cost, and emissions of the project through improved accuracy, while most importantly creating safe operations under extreme conditions, 392 metres below sea level[4].

The great conversion

The French industrial gas giant Air Liquide announced the start-up the world's first industrial-scale ammonia cracking pilot unit that has the capacity to convert 30 tons of ammonia to hydrogen per day. One of the key drawbacks of hydrogen is the difficulty of efficiently transporting it over long distances. This new technology should help solve this issue and enable a greater use of hydrogen in industry and mobility to help with decarbonisation efforts[5].

Banking on change

The Spanish bank BBVA announced it had met its 2025 Community Investment Objective a year ahead of schedule, having directed nearly EUR600 million into social initiatives between 2021 and 2024, impacting nearly 106 million people. While there is a big emphasis on education through these initiatives, the other two areas focus on reduction of inequality and support for entrepreneurship. In this regard, BBVA has supported more than three million vulnerable microentrepreneurs annually across Latin America through financial products such as microcredits, micro insurance, and financial and digital literacy workshops[6].

"BBVA has supported more than three million vulnerable microentrepreneurs annually across Latin America through financial products such as microcredits, micro insurance, and financial and digital literacy workshop."

[2] Novartis receives approval for first malaria medicine for newborn babies and young infants (novartis.com).
[3] Heidelberg Materials press release (18 June 2025).
[4] Hexagon's technology guides Skanska in building the world's most ambitious road tunnel (hexagon.com).
[5] World first: Air Liquide's innovative technology converts Ammonia into Hydrogen at industrial scale, paving the way for new low-carbon supply chains (airliquide.com).
[6] BBVA channeled nearly €600 Million into social Initiatives between 2021 and 2024 (BBVA.com).

Powering Europe's future: the critical need for grid infrastructure modernisation

In the early afternoon of 28th April 2025, the power systems of Spain and Portugal experienced a blackout, leaving over 55 million people without power. In such an electricity-dependent ecosystem, the outage caused widespread disruption. Public transportation systems, traffic lights, bank ATMs, and electronic payments systems were all rendered useless, while mobile networks and internet services were unavailable. Power wasn't restored until the early morning of the following day. It was the biggest blackout in Europe in over 20 years and could be deemed even more significant given the economy's dependence on power and connectivity has increased that much more.

In the aftermath, some were quick to blame Spain's increased usage of renewables in its energy network as the root cause of the issue. We still await the final report from the European Network of Transmission System Operators for Electricity (ENTSO-E) in early 2026, but its initial factual report released in October 2025 concluded the incident was not as result of renewable energy usage, but the driving force was overvoltage conditions that caused cascading generator trips. The issue stems from an out-of-date grid infrastructure having a lack of voltage control.

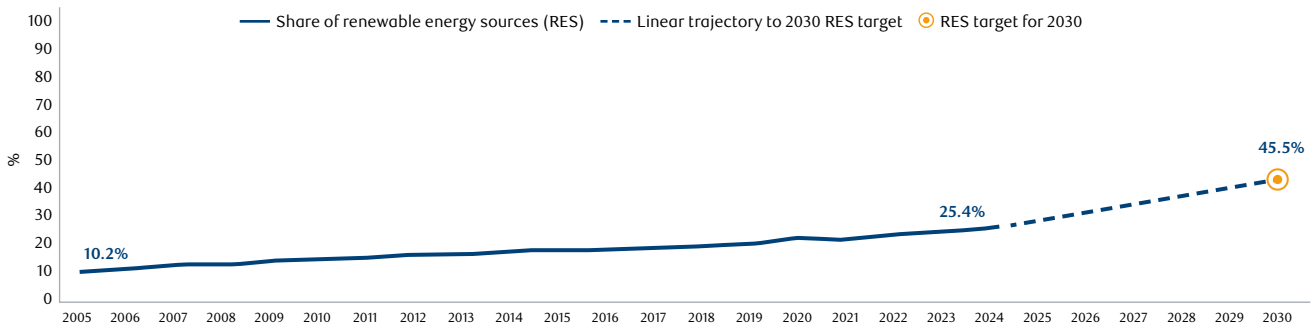
This incident was a wake-up call for Spain (and indeed the rest of the Europe) that more incidents like this will occur if there is no upgrade of the grid infrastructure. As countries try to meet net-zero targets, renewables inherently become a larger part of the power generation. Given that wind and solar are intermittent energy sources, grids need to be more advanced, allowing for flexibility and energy storage to balance the supply and demand with the fluctuation of power generation.

This also comes at a time when energy demand is expected to increase significantly, with mass AI adoption leading to a surge in demand for energy-intensive data centres.

The EU has acknowledged that grids across the member countries are not at the required standard to deal with the challenges of today, and in the future as we continue to see further electrification. It is estimated that 40% of EU distribution grids are already over 40 years old[7]. They were built at a time when power generation was focused on fossil fuel and nuclear plants delivering one-directional electricity flows to consumers. In today's world where we have decentralised generation, rooftop solar, cross-border trading, and bi-directional flows, the legacy architecture struggles as these were never areas they were designed to support.

Europe has been a leader in the switch to renewable energy generation. In 2024, 47.5% of the energy production in Europe came from renewable sources, led by wind and hydro, but significant increases from solar. 25.4% of all final energy consumed in the EU was obtained from renewable sources, as they aim to bring this up to at least 42.5% by the end of the decade[8]. As advanced as these intentions are, the issue today is that the increase of renewables into the system are not being fully realised because the grids are unable to handle the extra load. Close to 1,700 gigawatts of renewable projects are stuck in queues waiting to be connected to the grid. This is more than three times what the EU needs for its 2030 renewable targets (Figure 3). Seven countries wasted at least EUR7.2 billion worth of renewable energy in 2024 alone due to grid capacity constraints[9]. While the increase renewable production is well-intentioned, it is not beneficial if it cannot be utilised.

Figure 3: Progress towards renewable energy source targets for EU-27



Source: Share of energy consumption from renewable sources in Europe | Indicators | European Environment Agency (EEA).

[7] European grids (commission.europa.eu).
[8] Share of energy consumption from renewable sources in Europe (eea.europa.eu).
[9] A brighter future: why upgrading the grid is vital for Europe's competitiveness (ecfr.eu).

This also comes at a time when power demand is expected to increase in the region after years of stagnation and decline. Energy efficient appliances, lights, and buildings amongst other products have helped offset energy demand increases from the electrification trend. The recent economic slowdown has led to a decline in power consumption in Europe, but an AI boom, especially the data centres required to enable AI, is expected to raise energy demand needs in the future. In Ireland, where data centre growth had already accelerated, power consumption in the space has increased by more than 400% since 2015. Data centres already account for more than 22% of the country's electricity usage. Electricity demand for data centres in Europe is projected to grow from 96 TWh in 2024 to 168 TWh by 2030 before rising to 236 TWh by 2035[10]. This suggests an increase close to 150% over the next decade. Overall, this should lead power demand starting to rise by 2-3% per annum.

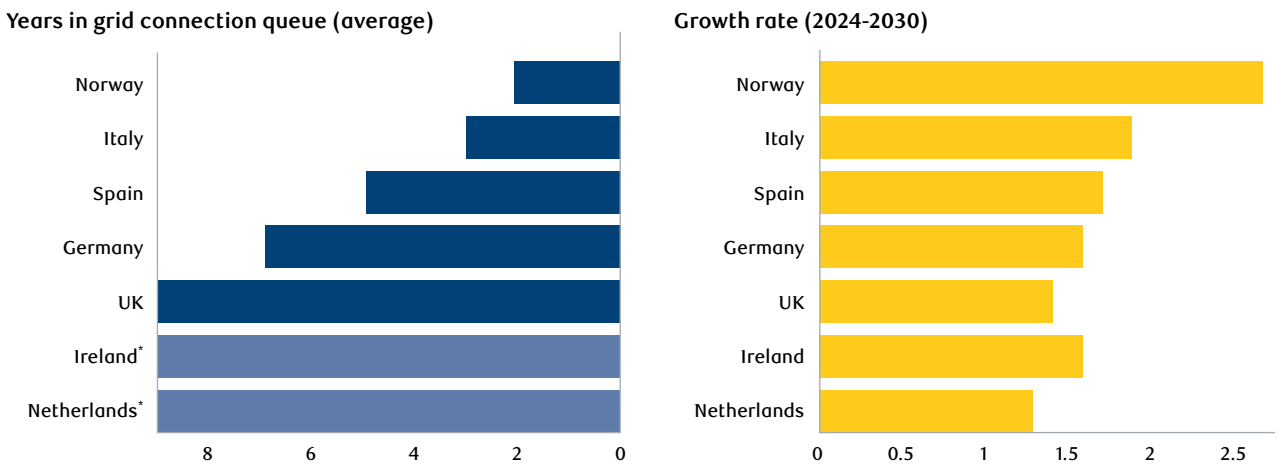
Given the energy intensity of data centres, using renewable sources to power them would be ideal to help lower emissions, and Europe's goals in incorporating more renewables could make it a great area for hyperscalers to establish them. However, there are issues when it comes to intermittency of the power, as data centres require 100% uptime. While data centres can use uninterruptible power supply systems, standby generators, and energy storage systems to help ensure consistent power generation, smart grids are also essential. Luckily, AI can also help with grid optimisation and enabling the integration of more renewable energy sources. The bigger hurdle right now is getting data centres connected to the grid. New facilities tend to wait seven to ten years for grid connectivity, and in some cases, it can take up to 13 years.

For this reason, we are seeing a shift in data centre demand growth out of the traditional European leaders in Frankfurt, London, Amsterdam, Paris, and Dublin where there is higher grid congestion, and into the Nordics and Southern Europe where there are shorter wait times (Figure 4).

> **"Europe does not want higher power costs and ageing grids to be a burden that prevent it from competing in the data centre space as well."**

This all comes at a time when Europe's competitiveness on a global scale has been in question. The Russia-Ukraine conflict highlighted the dependence Europe has on imports for oil and LNG. As energy costs surged across the continent, energy security has come into focus as energy costs are significantly higher and industrial production remains more expensive as a result. Europe does not want higher power costs and ageing grids to be a burden that prevent it from competing in the data centre space as well. To help address the energy concerns, the EU announced the European Grids Package in December 2025. This package will see an approximate EUR1.2 trillion investment through 2040 to upgrade the transmission and distribution networks across the member states. The plan looks to address the key issues of modernising the ageing grid infrastructure to meet growing electricity demand needs, while integrating cleaner energy sources. The plan also emphasises Energy Highways, which attempts to strengthen cross-border electricity transmission across the EU, integrating cheaper clean energy, and making the area much more energy independent. It hopes to achieve its goals by streamlining the permitting processes for grids, storage, and renewable energy to reduce project delays.

Figure 4: Faster grid connection is well correlated with stronger data centre market growth in Europe
Years in grid connection queue and growth rate (2024=1)



Source: Growth rate from ICIS data. Grid connection estimates from Ember based on multiple sources.
*Effective ban on new data centres in Ireland and the Netherlands.

[10] https://ember-energy.org/app/uploads/2025/06/Grids-for-data-centres-in-Europe.pdf.

As the importance of the grid become abundantly clear and with the backing of the EU, we believe there are plenty of companies that stand to benefit as they provide solutions that will help future proof grids across Europe. Siemens Energy plays a critical role in upgrading transmission infrastructure through technologies designed to handle higher power flows and renewable integration. Its high-voltage direct current (HVDC) systems efficiently transfer electricity over long distances, reducing losses, while enabling the connection of remote renewable resources. The systems provide advanced grid control capabilities and help the transmission networks handle growing electricity demand and integrate renewable energy into the grid.

"With the backing of the EU, we believe there are plenty of companies that stand to benefit as they provide solutions that will help future proof grids across Europe."

Another example is Prysmian, a global leader in advanced cable systems that distributes energy across the region and enable modern transmission networks. It goes beyond traditional cable manufacturing to deliver comprehensive smart-grid solutions to improve energy efficiency, reduce carbon footprint, and meet renewable energy requirements.

Schneider Electric provides solutions for digital smart-grid architecture that aims to modernise distribution networks and improve operational reliability. Its smart grid solutions integrate digital communication, IoT sensors, automation, smart metres, and data analytics to enable real-time monitoring and power management. This helps reduce outages, optimise energy usage, and support the integration of renewables into the grid network. Finally, Iberdrola is one of the big utility players actively building and operating the next-generation networks. It is integrating smart grids to enable efficient, sustainable, and safe power delivery. It views the transformation of grids into smart infrastructure as pivotal in advancing electrification and facilitating renewable integration. As one of the largest distribution systems globally, it will play a critical role in modernising grids.

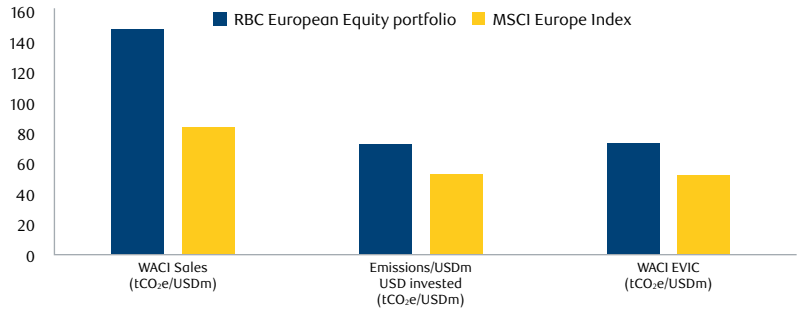
Several developments of recent years including the reduction in Russian gas exposure, the growth of renewable energy, and the increased importance of data centres, has made it abundantly clear that grid modernisation needs to be a priority. It is essential for energy security, for the energy transition, and for Europe to remain competitive on a global scale. Building power generation is no longer enough; it is the grid that is the most crucial factor.

Portfolio ESG analysis

Carbon

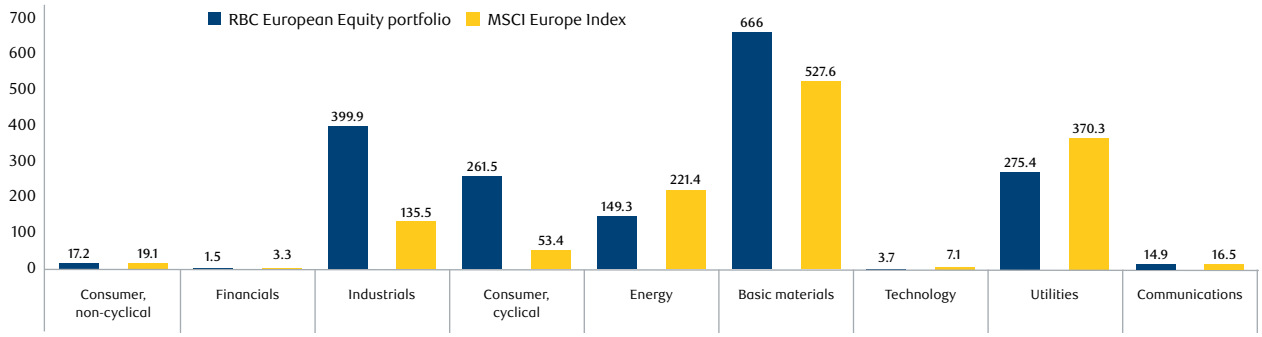
Our portfolios continue to exhibit lower carbon emissions intensity than the broader benchmark for some metrics, although not for weighted average carbon intensity. While we do not have a specific target related to these metrics, they are considered as an additional data input to our fundamental, bottom-up research in constructing investment cases for individual companies as well as the construction of our portfolios as a whole.

Figure 5: Carbon emissions analysis



Source: RBC European Equity Fund versus MSCI Europe Index. RBC GAM analysis based on MSCI Climate Change Research, as at 31 December 2025, MSCI®.
*Reflects most recently-available data for each company on the date of running the report. WACI stands for Weighted Average Carbon Intensity.

Figure 6: Sector weighted average carbon intensity (sales), tCO2 e/USD$M sales



Source: RBC European Equity Fund versus MSCI Europe Index. RBC GAM analysis based on MSCI Climate Change Research, as at 31 December 2025, MSCI®.

Relative ESG ratings

With Europe the highest scoring ESG region in the world when it comes to corporate-level sustainability, as defined by Morningstar, we note that the portfolio continues to score well on a relative basis[11]. However, we are aware of the limits of external third-party vendor scores so, as with our carbon intensity, we place more value on our fundamental processes although we believe that this data provides a useful sense check to our work.

Figure 7: RBC GAM European Equity ESG scoring

MSCI ESG scoring							
Overall ESG score - portfolio	Overall ESG score - peers	Environment - portfolio	Environment - peers	Social - portfolio	Social - peers	Governance - portfolio	Governance - peers
7.89	7.80	6.78	6.78	5.43	5.35	6.58	6.65

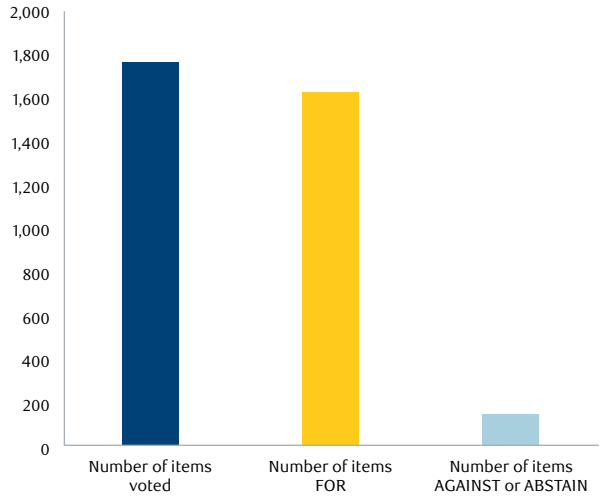
Source: RBC GAM analysis based on MSCI ESG Research, as at December 31, 2025. MSCI®. MSCI data shows the relative scores of the RBC European Equity strategy versus those of MSCI peers 'Equity Europe'.

[11] Morningstar/Sustainalytics Sustainability Atlas, April 2023.

Voting record

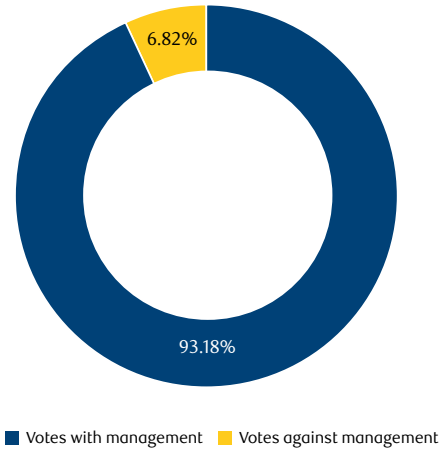
Proxy voting remains an important tool for us in supplementing our engagement with management. While RBC GAM has a set of custom Proxy Voting Guidelines for many markets, in Europe, RBC GAM uses the local proxy voting guidelines of a research provider. We work closely with the Responsible Investment (RI) team to review every ballot item and ensure that proxies are voted in accordance with best practices in corporate governance and in the best interests of our clients, with a view to enhancing the long-term value of securities that are held. The proxy voting process ensures that we make voting decisions based upon our deep knowledge of the companies that we invest in, while benefiting from the responsible investment expertise of the team.

Figure 8: 2025 proxy voting record



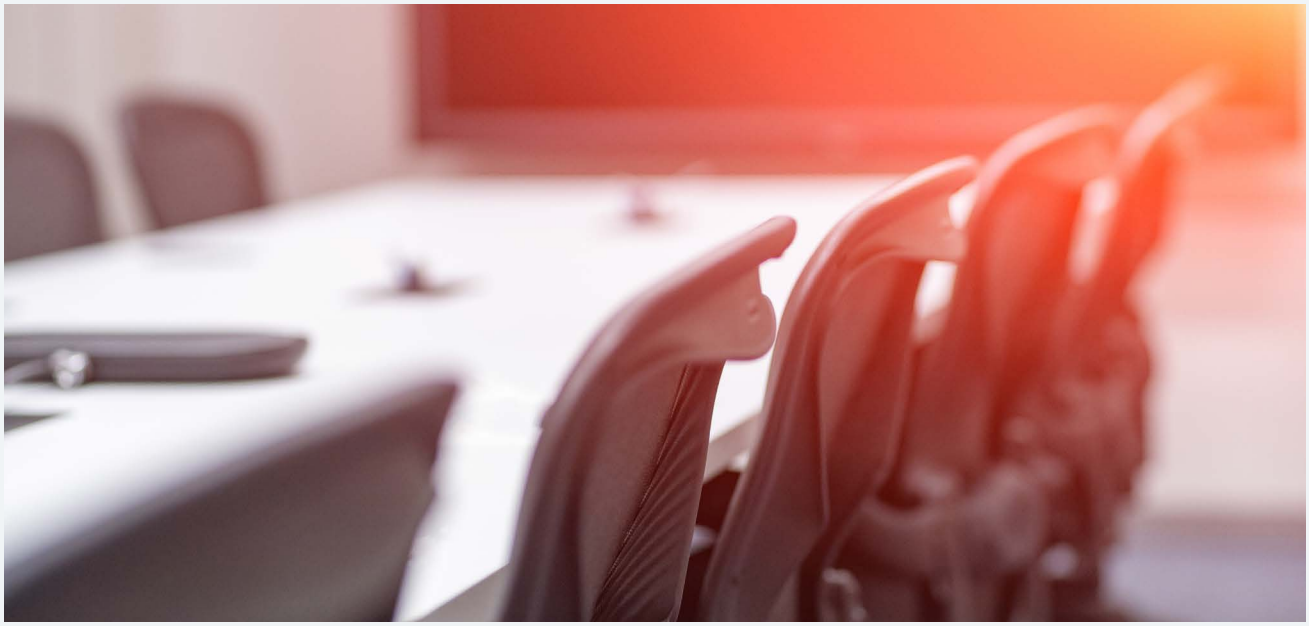
Source: RBC GAM. Data as at December 2025.

Figure 9: RBC GAM European Equity team votes (% of total)



Source: RBC European Equity strategy. Data as at 31 December 2025. Total may not add to 100% due to rounding.

In 2025, as in previous years, our percentage of votes in support of management sits at just over 90%. With an investment philosophy grounded in investing in excellent companies, run by management teams we both understand and trust to increase the long-term value of the businesses, we would expect this number to remain high. Despite this, however, we are always prepared to vote against management when we deem it necessary.

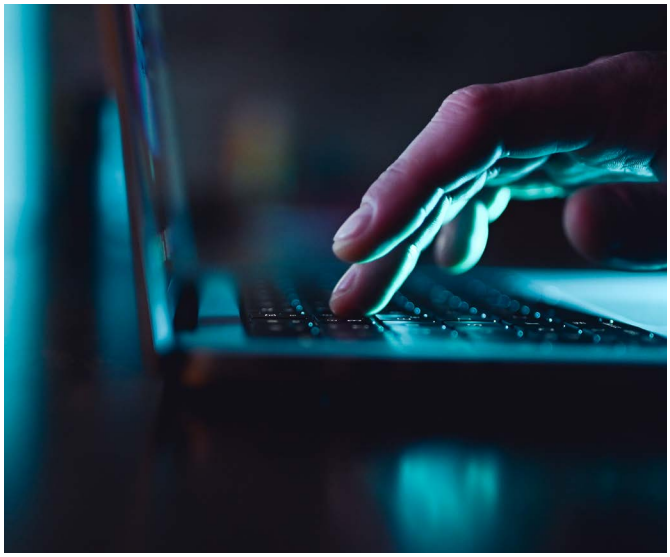


2025: Notable corporate engagements

ASML: we discussed the effort involved in recruiting and retaining talent in a competitive technology market with over 16,000 employees in R&D. The company isn't necessarily able to attract talent from Silicon Valley to come to a small town in the Netherlands, but it is able to go after elite talent within Europe and other parts of the world. There are over 20,000 employees in the Netherlands and 40% are non-Dutch. It's not simply hiring but building a community and connecting employees and their families together through similarities such as nationality, language, and interests. Recruiting is important, but retention is even more important, and the attrition rate is back down to 4%. With such a diverse workforce and with the recruitment of top talent it is crucial there isn't arrogance, and ASML fosters a culture where colleagues can challenge each other but remain collaborative.

Holcim: the company explained how cement is a carbon emitter, but the steps it is taking to reduce emissions are manifold. It is reducing emissions by 1% per annum by using less carbon fuels, switching production from coal and gas to municipal waste and biomass. The reduction in clinker used in the cement reduces emissions by a further 1% per year. The company is also working on carbon capture technology at its cement plants, with the carbon captured being food grade, so it could be used in carbonated drinks. It is working with the industrial gas players to turn the CO_2 into methanol. 2028 will see the production of the first net-zero cement, and over half the cement Holcim sells currently is carbon-reduced.

Invisio: we discussed the importance of the company's products for the health and safety of military personnel. Invisio was founded to help address the hearing loss veterans endure. It is estimated that the U.S. government alone spends USD3-5 billion per annum to treat veterans with hearing loss. The company has developed communication and hearing protection equipment to help soldiers to communicate safely in the field, while also protect their long-term hearing and reduce costs further down the line. With military equipment getting louder, the need for hearing protection is that much greater but the adoption rate is still quite low. The company's latest technology can go up to 40 decibels dampening. There are some military vehicles that one could only go in for an hour because of the significant noise, but with this equipment, the length of time in the vehicle can increase to eight hours.



IMI: we discussed the recent cyber security incident, which the company expects to have one-off costs of GBP20-25 million and 1% impact on growth. It had defences in place, but it was a very high-level attack, mirroring organised crime. IMI was able to restore its data and running software from the backups, but it did cause it to take a lot offline. It is revisiting its cyber software partners, but also looking to have more islands and isolations so not all business units are impacted. The single sign-on system is going to have to compartmentalise again as it disrupted businesses unnecessarily. It was down for about 10 days in total and industrial automation was most impacted as 20% of the business likely missed out on sales. Overall, we're happy with how the company handled the incident, and glad it is taking away lessons to learn from and see where it can improve.

Technip Energies: while the company has benefitted from the growth in LNG projects where it has specialised historically, we discussed its excitement in its growing sustainable products and solutions. Despite the change in tone around sustainability in the US, Technip still sees strong demand in the US for sustainable energy projects. It expects sustainable aviation fuel to become mainstream as there is no other viable alternative for the industry to reduce emissions. Technip believes the carbon capture opportunity could be as big as LNG. It had more carbon capture projects awarded in 2024 than LNG, and is seeing a lot of projects in the pipeline, none bigger than Net Zero Teeside, a full chain carbon capture, utilisation and storage project in the UK. Technip is also very positive on the Reju project, which aims to improve the circularity in the textile business with an innovative technology that recycles textile to textile.

Our recent ESG research and articles

We highlight two pieces of research of those produced during 2025 that demonstrate the intriguing juncture that responsible investing resides at. As responsible investment becomes both broader in scope and more widely accepted, so we have increasingly delved deeper into areas that may in the future prove important in this regard.

Is this the end of net-zero? Europe, Trump, and Tariffs

During an episode of our Sustainability Podcast, Freddie Fuller was joined by Rob West, the founder and CEO of Thunder Said Energy, a leading energy research consultancy. One of the foremost thinkers in his field, Rob has unique and informative insights on the momentous events affecting the energy transition. His company publishes research based on objective economic modelling, patents and technical papers, and advises some of the world's leading decision-makers across the energy, investment, and private equity industries.

Rob discussed the fundamental shift occurring in the global energy transition away from idealistic decarbonisation toward practical competitiveness. He noted that the traditional approach of co-ordinated global climate action is failing, with predicted continued emissions of 30 billion tonnes of CO2 annually by 2050, indicating a major departure from net-zero ambitions.

The discussion outlined how the energy transition faced numerous challenges after initial optimism, including political resistance to paying for decarbonisation, escalating trade tensions, and major emitting countries pulling back from climate commitments. However, from around 2022 and particularly in 2023, a new paradigm began emerging focused on energy security and industrial competitiveness.

A significant transformation is occurring within the European energy strategy, with countries paying more attention to energy independence and competitive positioning on a global scale. The traditional approach of prioritising emissions reduction above all else is being challenged due to geopolitical tensions and economic pressures. Governments are actively seeking to balance climate goals with industrial competitiveness, including initiatives to develop domestic energy resources and attract investment in energy infrastructure. Rob highlighted solar technology's potential as a game-changer, particularly the semiconductor-like efficiency improvements that could deliver electricity at 1-3 cents per kilowatt-hour. Additionally, he emphasised the importance of distinguishing between competitive and non-competitive decarbonisation approaches, such as comparing carbon capture and storage with reforestation based on their impact on industrial competitiveness.

Despite these positive technological developments, infrastructure challenges remain, with grid limitations requiring significant expansion to accommodate renewable deployment. This is particularly evident in the need for battery storage systems to address intermittency issues. The conversation concluded with the observation that this paradigm shift toward pragmatic energy policy may present compelling investment opportunities, particularly in solar value chain companies and energy majors repositioning for domestic production rather than purely focusing on emissions reduction targets.

La Dolce Vita: lessons in purpose from Cucinelli

In this article, Robert Clarke, an analyst on the desk, explored the decline of ESG terminology in corporate communications and examined alternative business models through the lens of "Humanistic Capitalism".

Rob highlighted the steep decline in ESG-related terminology since its 2021 peak, based on analysis of over 72,000 companies. This decline stems from regulatory complexities, a political backlash, and accusations of greenwashing. ESG funds have underperformed as energy and defence stocks rebounded post-pandemic, leading corporates to distance themselves from the term.

Framing this discussion is Willis Harman's 1974 concept of "Humanistic Capitalism," which argues that companies must ensure a "healthy society" and "habitable planet" as sound long-term business strategy. This contrasts with traditional shareholder primacy models, creating ongoing tension in corporate governance.

There are two good examples of this within the European equity space. Wise, a fintech platform, operates under the principle "Customer > Team > Ego," limiting margins to 20% and reinvesting excess profits in better infrastructure and lower customer rates. This creates a virtuous cycle of improved service, increased trust, higher volumes, and sustainable profits.

Brunello Cucinelli, the luxury fashion manufacturer, explicitly adopts Humanistic Capitalism with practices including 1.5-hour lunch breaks, a strict work-life balance, above-market wages, and community investment in restoring the medieval hamlet of Solomeo. The company calculated a 2:1 Social Return on Investment despite criticism that such models only work in luxury markets.

While ESG terminology may be declining in part due to performance challenges and greenwashing concerns, companies like Wise and Brunello Cucinelli demonstrate that long-term sustainable business practices can generate competitive advantages through customer loyalty and employee productivity. Sustainable profit generation requires longer measurement timeframes rather than short-term financial metrics, making Humanistic Capitalism a viable alternative approach for creating stakeholder value over the long-term.

Conclusion

We believe that ESG issues will continue to permeate areas of the investment, regulatory and corporate landscapes for the foreseeable future, often in surprising ways. Themes will wax and wane, but we stand firm in our belief that investing in the best companies that pay attention to the fundamentals of ESG in the way that they run their businesses will continue to provide robust returns for investors. In the meantime, we continue to assess and evolve our own views and processes to ensure that we can be as ahead of the curve as possible on behalf of our own clients.

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