Our Sustainability Outlook

The AI investment boom that has accelerated in 2025 is dominating sentiment across financial markets. Confidence in “American exceptionalism” is potentially on the ebb. Geopolitical events are now driving the global news cycle. Governments risk intimidation from the bond markets. 2026 is already promising to be a blockbuster year.

Looking back over the last five years, we’ve been through a pandemic, an inflation outbreak, an aggressive shift in the interest rate cycle, war in Europe, and now growing risks related to an AI-rally. And yet, despite these risks, the global economy appears resilient and global markets have delivered strong returns.

But how has the sustainability outlook changed?

As sustainable investing evolves, the focus is shifting decisively from ambition to execution. In 2026, investors are likely to care less about long-term pledges and more about whether sustainability themes translate into resilient business models, credible cash flows and effective risk management.

Increasing use of AI is leading the world to a crunch point when it comes to access to resources, while this new geopolitical era risks global fragmentation rather than global cooperation.

With this backdrop in mind, we explore the key sustainability themes for 2026 that are guiding how we are thinking about the world, how we are positioning our portfolios, and where we are looking for new investment ideas.

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1 Regulation, cooperation and geopolitics

There is no doubt that changes on the geopolitical stage have affected how sustainability-related regulation is going to progress. The US has rolled back on SEC-mandated climate disclosures, while the European Union delayed its Omnibus ESG disclosure regulation.

We expect that this will continue in 2026 as geopolitical pressures push the world away from multilateralism and cooperation, and towards multipolarity and national interest.

Importantly, however, companies around the world continue to make progress in solving the world's largest sustainability challenges. Three-quarters of C-suite leaders rated sustainability as a top priority in a recent Reuters poll, motivated in part by the link between corporate transparency, costs of capital and market valuations.

Undoubtedly, we will see different issues progress at different speeds.

One notable area which has seen progress in the wrong direction is workforce diversity disclosures where the share of S&P 500 companies publishing data on women in management dropped by 16% in 2025. This has unfolded as US regulators make it increasingly difficult to report against these targets.

A fragmented landscape which places more emphasis on voluntary sustainability reporting rather than mandated disclosures by regulators will reveal genuine sustainability leaders.

This will be beneficial for EQ portfolios as our investment process is founded upon robust ESG analysis, with the integration of financially material risks and opportunities influencing our investment decisions.

2 Solving AI constraints

While many investors see the advanced chips designed by companies such as Nvidia as the key to leading the AI revolution, we believe something more fundamental has been overlooked.

Basic resources such as energy and water are vital when it comes to building new computing power. It's no coincidence that when talking about how big data centres are, they're quoted in terms of GW (a unit of power) rather than FLOPS (a unit of computing power).

As it stands, the constraining factor on most data centres being built and brought online is access to power rather than the advanced chips themselves. Another crucial input, water, is also often overlooked. From the manufacturing of semiconductors through to the cooling of the data centres, highly processed ultra-pure water is needed in vast supply.

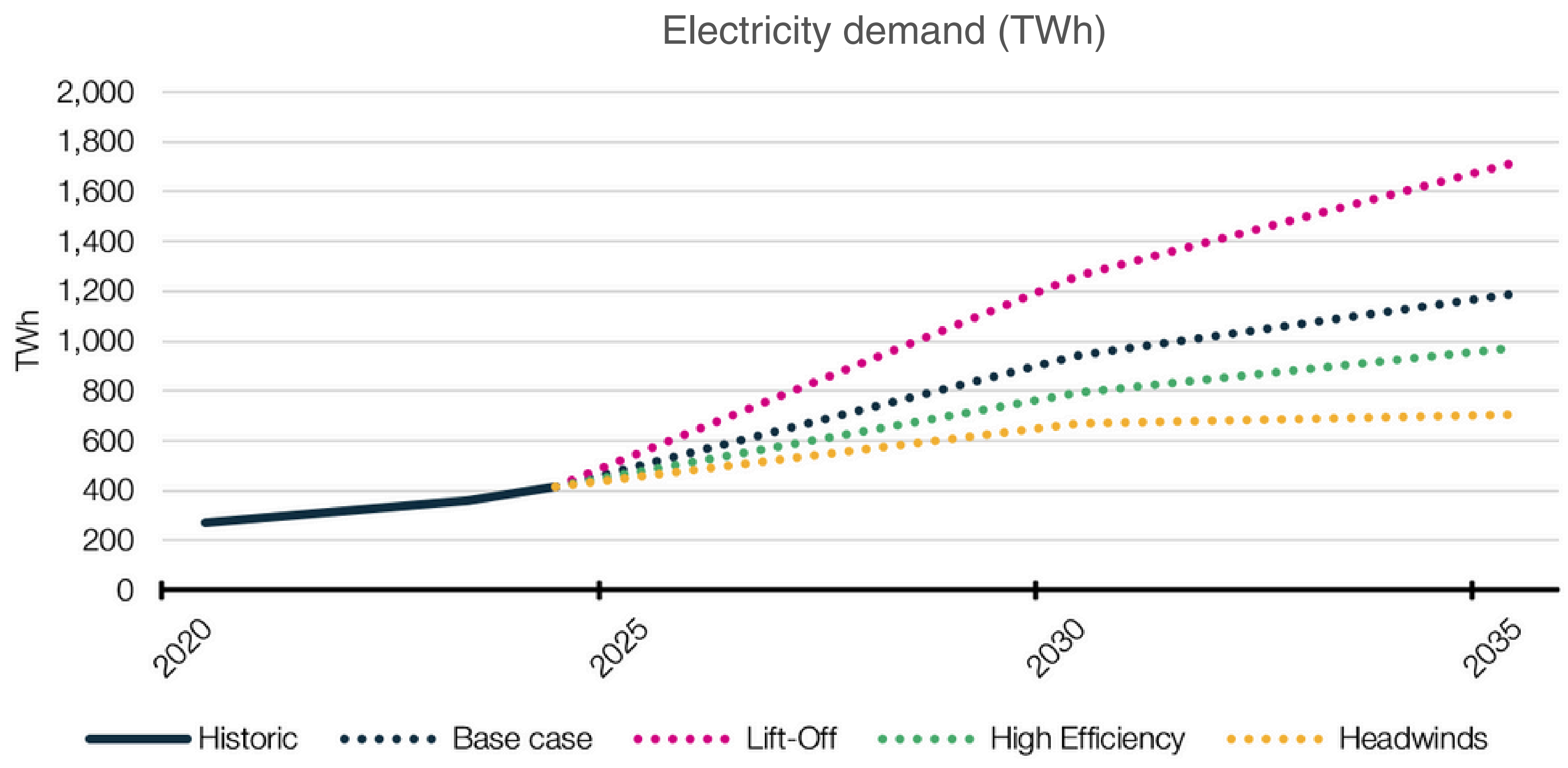
If AI is to continue developing at pace in 2026, the energy question will need to be answered.

Earlier this year, the IEA, an international energy think tank, put out four forecast scenarios for electricity demand for data centres over the next decade.

In its base case, the IEA expects 10% annual growth in electricity consumption which would result in data centres growing to almost 3% of all the world's electricity demand. This is a level of demand growth beyond what current infrastructure can handle.

Sustainable investors can contribute and benefit from investable solutions that solve for these problems, including electric utilities, physical grid equipment, or smart balancing software.

Global data centre electricity demand forecasts



Source: International Energy Agency, EQ Investors.

While our sustainable portfolios are underweight the "Magnificent Seven", those large technology companies that have received the majority of investor attention so far, we believe that by investing in companies enabling electrification, efficiency and environmental stewardship, our portfolios can be exposed to similar growth drivers while helping enable sustainability improvements.

Almost half of our flagship impact portfolio holdings present an electrification, carbon efficiency or resource efficiency solution, compared to just 19% of a traditional global equity portfolio.

3 Responsible governance and ethical AI

AI is no longer confined to technology companies. Industrials, health care providers, utilities and payment processing companies are just some examples of industries looking to use AI to improve the efficiency and outcomes of business models.

However, as the adoption of AI technologies rises, so does the risk of unethical practices. We are seeing growing scrutiny of how companies ensure responsible, transparent and accountable deployment.

We believe 2026 will be a significant year for AI regulation which will lead to the governance around its usage becoming a financially material risk.

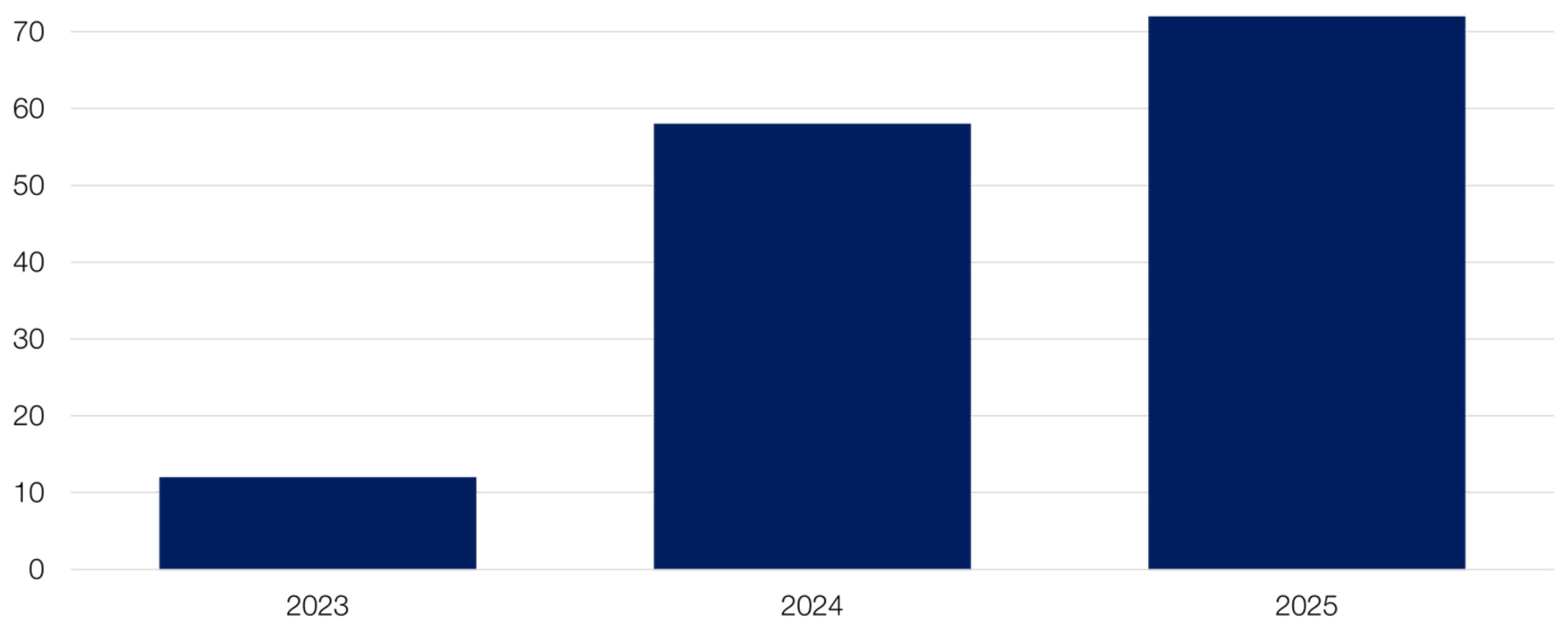
We have been engaging on responsible AI frameworks for three years, during which time major investor collaborations such as the one run by the World Benchmarking Alliance has seen its signatories double and its engaged assets rise to over $10 trillion.

As we discuss voting practices with our partners in the asset management industry, it’s increasingly clear that AI-related resolutions are dominating the corporate engagement agenda. In 2025, support for AI-related resolutions exceeded environmental and social proposals.

We believe this underscores the importance of this issue for investors, with topics covering areas such as board oversight of AI usage, transparency around data practices, and disclosure of social risks such as misinformation.

Rising recognition of AI risks

S&P 500 companies disclosing one or more AI-related risks in 10-K annual reports (%)



Source: The Conference Board / ESGAUGE.

4 Climate solutions renaissance

Despite the more challenging political sentiment, share prices in clean energy companies had a fantastic year in 2025. Renewables continue to make huge progress globally, making up around 80% of new capacity additions.

But while decarbonisation technologies are essential to meeting future power demand, sentiment towards these technologies remains frosty.

We believe a defining feature of 2026 within the climate solutions space will be a renewed focus on financial sustainability. Higher costs of capital and political push back in the US raises the stakes for companies linked to the climate theme.

Ultimately, this will mean companies must show the market that their products are commercially viable and that their business models are financially durable.

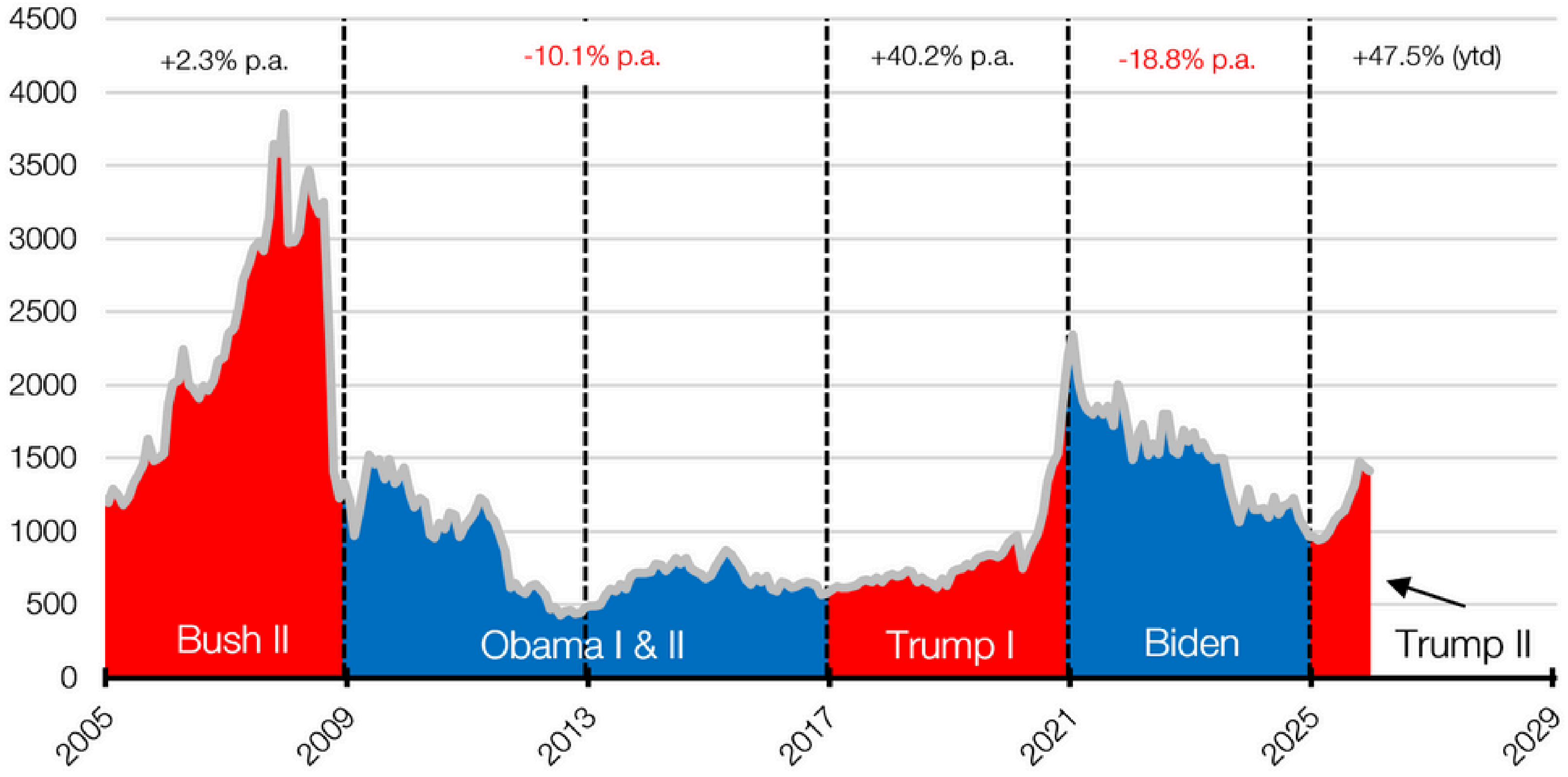
Recent research at MSCI has shown this trend to be already visible, where commercially mature companies have outperformed earlier stage businesses.

As share price volatility for clean energy companies is likely to remain elevated across the political cycle, we have worked extensively to manage our exposures to more volatile equity segments such as wind and solar in line with benchmark weights.

Simultaneously, we have looked to build out how we access the theme across the capital structure, through the extensive use of green bonds. For example, over 70% of bonds in our flagship impact portfolio range is invested in green, social or sustainability labelled bonds, while green bonds form a core holding across our wider sustainable range.

Average performance of clean energy theme by presidential term

S&P Global Clean Energy Index (USD)



Source: Bloomberg, EQ Investors.

5 Climate risks becoming real

Despite progress in recent years on deploying decarbonisation technologies, warming targets continue to be exceeded. This means that physical climate risks, tangible threats from a changing climate ranging from acute events like floods or storms to chronic events such as changes in temperature or rising sea levels, will pose a growing threat to global supply chains.

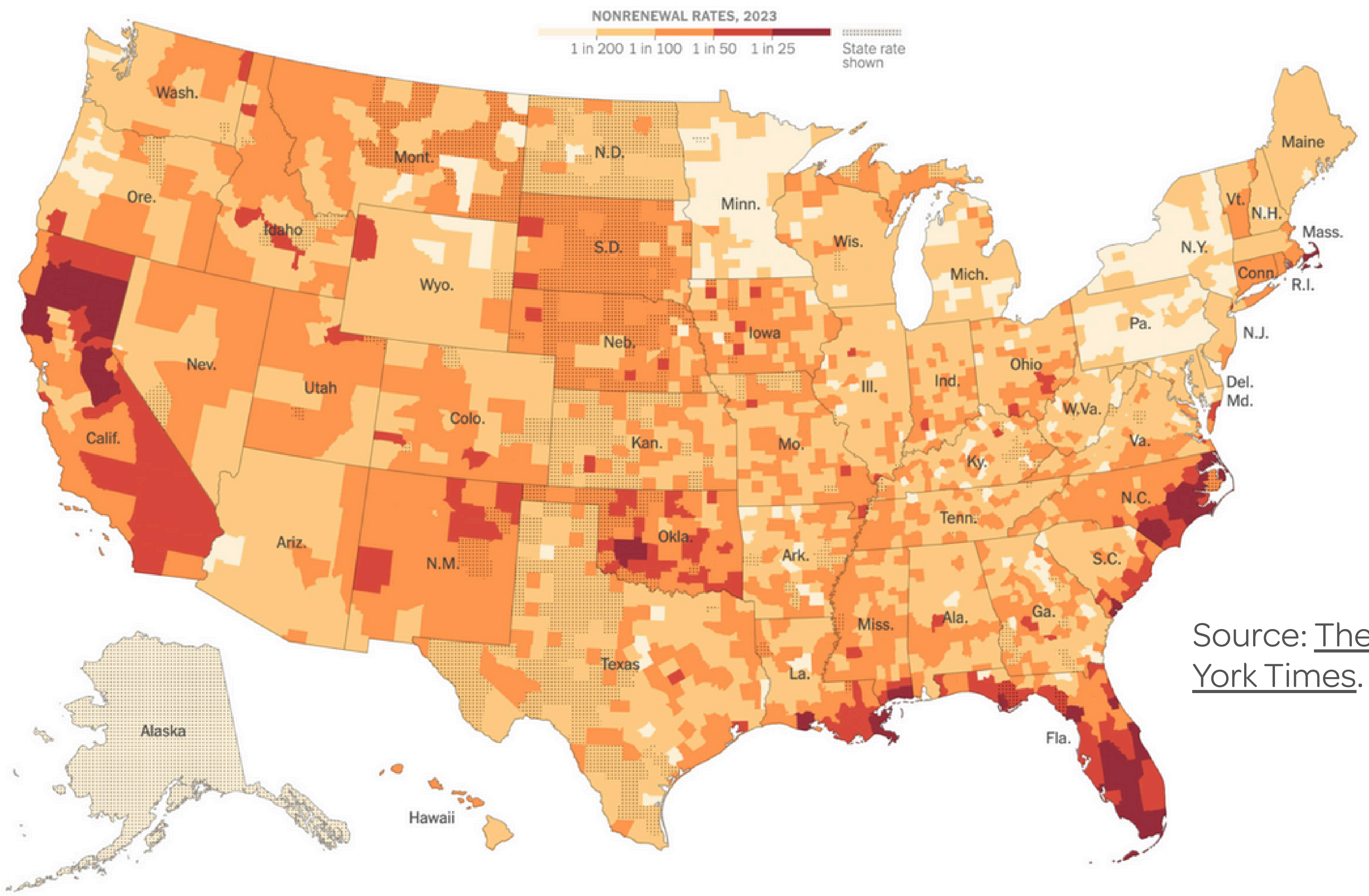
With these risks becoming more tangible and some insurance companies even withdrawing from geographic regions that are particularly vulnerable to climate change (see chart below), investors are increasingly integrating climate and nature scenarios to understand emerging risks.

What's more, many financial regulators are including climate risks within their oversight of the financial sector. Banks in many regions are now required to prove they have adequate risk management practices and capital buffers to withstand climate shocks.

While climate risks are increasingly well understood, we expect nature risk assessments to be an area of major development in 2026.

We believe this will be driven by an increasing awareness by investors of nature-based risks and more corporates aligning with the recommendations of the Taskforce on Nature-related Financial Disclosures (TNFD) as they respond to stakeholder pressure.

Physical climate and biodiversity risk has been a major area of engagement for EQ with its asset management partners for the last three years. Our primary aim has been to further its integration within the investment processes of the funds we invest in, and we have seen significant progress towards this goal. In 2025, more than 60% of our fund managers implemented a change in their process based on our engagement.



Source: The New York Times.

6 Health & Nutrition: a defining year ahead

Consumer health is a major sustainability theme, with impacts and solutions coming both from the healthcare and nutrition sectors. The rapid adoption of weight-loss drugs combined with the mounting scientific evidence linking ultra-processed foods to chronic disease is starting to reshape demand patterns.

With long-term trends like demographic change, and ageing populations, governments are increasingly thinking about their human capital stock (in other words the health and skills of their population).

A key development in recent years is how the UK and US governments are developing new reporting and policy initiatives aimed at improving diets and reducing healthcare costs.

These trends create headwinds for highly processed food producers while supporting companies aligned with healthier consumption.

Some of our portfolios have an exclusion based on "unhealthy food" which uses government-verified standards like the Health Star Rating used in research and rankings published by the Access to Nutrition initiative.

We have strengthened this approach with a long-term engagement on healthy food sales through the ShareAction Healthy Markets initiative which we have been involved with since 2020.

This serves to future proof EQ's portfolios as the long-term risks of the public health externalises from unhealthy foods begin to materialise.

Looking ahead

Sustainable investing in 2026 will be defined by disciplined analysis of financially material risks and opportunities, and significant opportunity for active engagement to drive real change in corporate behaviour.

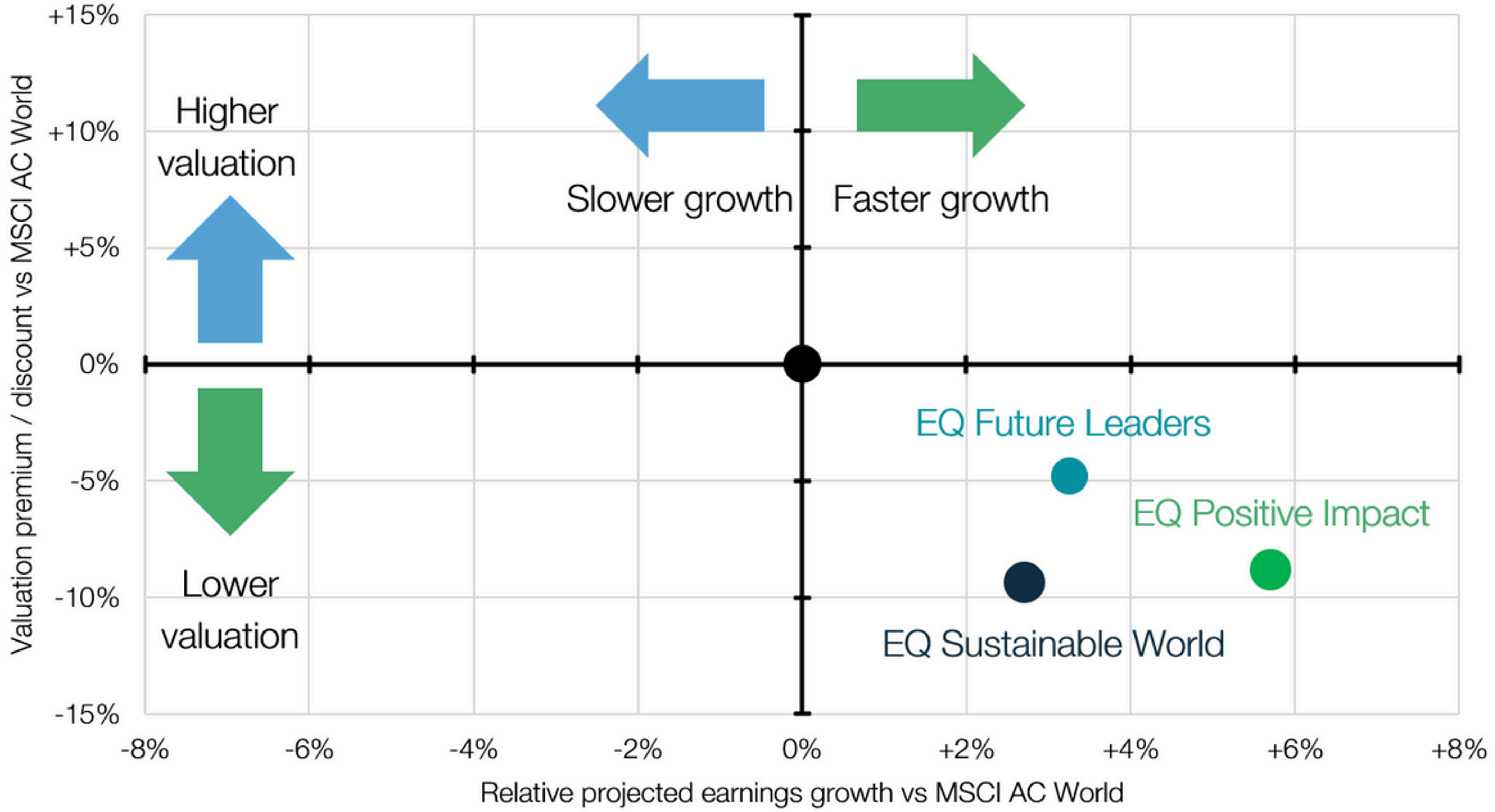
Alongside this, our core sustainable investment philosophy remains strong:

Companies that are responsibly managed are more future-fit, avoid being caught in scandals, which helps to avoid downside risks.

Companies that develop innovative products & services helping to solve social and environmental problems benefit from growing market demands and regulatory tailwinds.

Currently, valuations of companies across our portfolios are lower than the market, whilst showing faster expected rates of earnings growth.

This presents a fantastic investment opportunity for sustainable investors going into 2026.



Source: EQ Investors.

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