FUNDAMENTAL EQUITY QUARTERLY 01 2026

THIS EDITION'S HIGHLIGHTS

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P10 Equity Day: AI still front and center

Robeco's biannual Equity Day brought together fundamental, thematic and quant equity teams to share ideas and extend collaboration. It's no surprise that one theme dominated.

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P11 Extending the universe

We have made several updates to the Robeco European Stars Equities strategy to give the investment team more room to navigate the rapidly changing universe while keeping sustainability firmly embedded in the process.

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EUROPE: 2025 REVIVAL

+32.31%

STOXX 600

An immense 2025 for European stocks, especially measured in USD terms Index 2025 performance. 31 December close (USD, Price return).

+16.99%

TECH

Europe tech sector still overshadowed by US peers. Stoxx 600 Technology index USD performance to 31 December.

+61.22%

FINANCIALS

Earnings strength spurred Europe's financial sector to stellar performance. Stoxx 600 Financials index USD performance to 31 December.

US: ANOTHER GREAT YEAR DESPITE VOLATILITY

+16.39%

S&P 500

Another strong year, despite volatility after tariffs were announced. Index performance for 2025 to 31 December (USD, Price return).

+23.31%

TECH

US tech strength has driven the market again in 2025. S&P 500 Info Tech Index quarter to 31 December.

+13.32%

FINANCIALS

A solid 2025 for financials as investors celebrated a permissive regulatory approach. S&P 500 Financials index to 31 December.

Past performance is no guarantee of future results. The value of your investments may fluctuate.

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 Kees Verbaas, Head of Fundamental Equities

A positive set-up

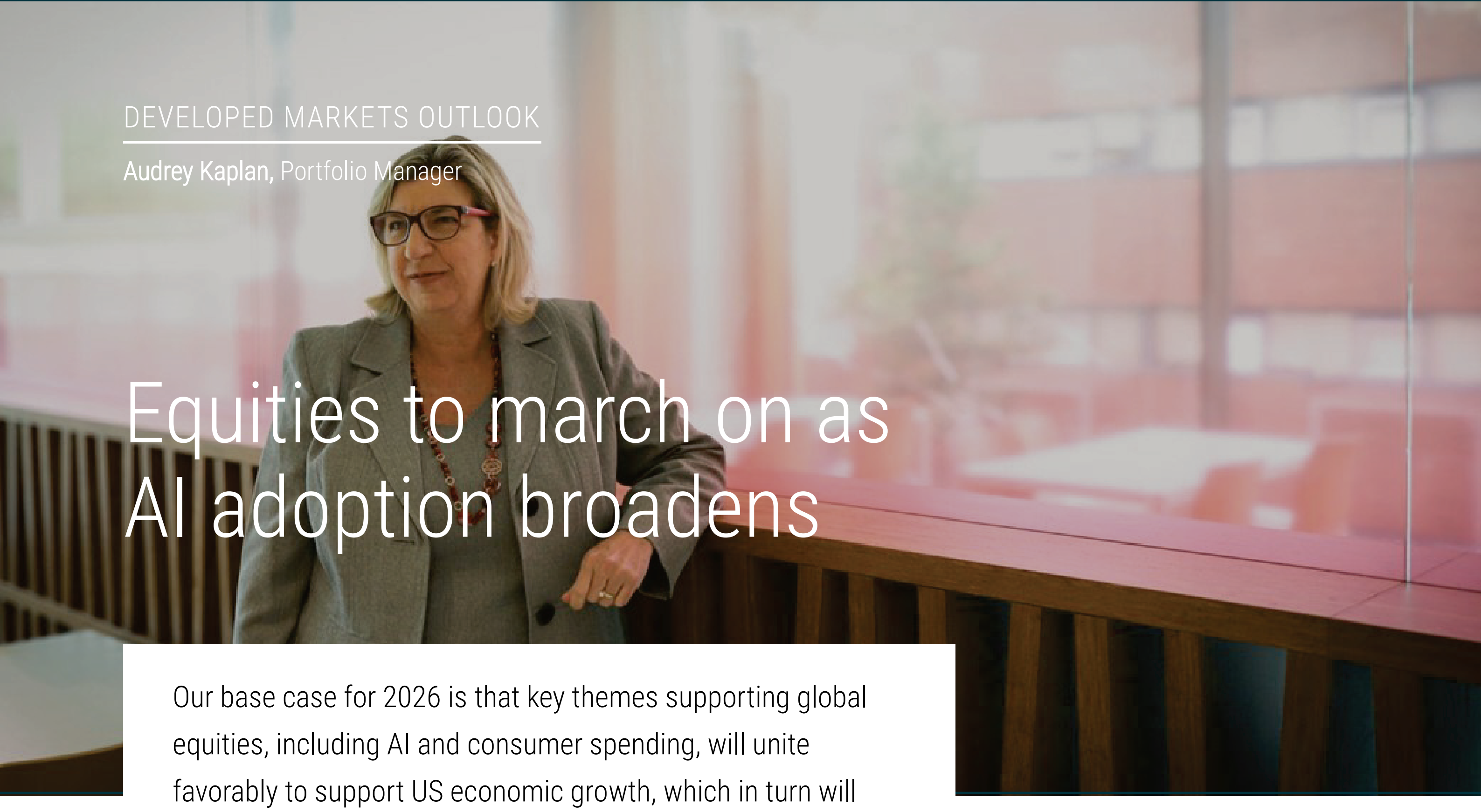
It was an incredible 2025 in financial markets in the truest sense of the word. Despite all the political skirmishes, geopolitical turmoil, and trade tension we saw equities again perform strongly, driven by the AI revolution and the relative performance of markets ex-US. We climbed a 'wall of worry', with fearful narratives abounding at every foothold over the underlying strength of the US and global economy, the impact of tariffs on inflation and supply chains, and the potential longevity of the AI investment cycle. Nevertheless, those investors who kept a long-term mindset and were sanguine about the news headlines were rewarded with solid performance, with Emerging Markets delivering exceptionally strong returns.

Meanwhile, 2026 is off to a full-throttle start. What can we expect next? A positive thesis is the most compelling. The investment cycle in AI in the US, defense and infrastructure spending in Europe, and the further catch-up of Emerging Markets, are all themes in their early stages. Energy prices are low, the tariff shock has been somewhat absorbed, and liquidity is still plentiful. Monetary conditions globally are set to get easier, led by the Fed and PBOC. Ahead of the US midterm elections there is little chance of tightening of either monetary or fiscal policy. That's a powerful set-up for more strength in equities, even as the new geopolitical realities create volatility and angst. Moreover, performance dispersion between asset classes, sectors and companies means it's now crucial to fine-tune asset allocation and take an active approach.

In this edition of the Fundamental Equity Quarterly we embrace all these themes with a write-up on AI, a subject which was central in our recent internal Equity Day conference, and reflections from portfolio manager Jack Neele on which less high-profile sectors are benefiting from AI capex. We interview Jie Lu on the prospects for China in 2026 and there's an article explaining changes to our Robeco European Stars Equities strategy that will broaden the investment universe. We also take a close look at Japan after bond market jitters in Q4, and the SI team give you their expert take on the recent COP 30 in Brazil.

Enjoy reading and best wishes for another great investment year!

Kees Verbaas



DEVELOPED MARKETS OUTLOOK

Audrey Kaplan, Portfolio Manager

Equities to march on as AI adoption broadens

Our base case for 2026 is that key themes supporting global equities, including AI and consumer spending, will unite favorably to support US economic growth, which in turn will bolster global growth.

Growth to reaccelerate

After moderate softness in 2H25, we expect US growth to re-accelerate in 1H26 as spending and easy financial conditions due to the One Big Beautiful Bill (OBBBA), rate cuts in the US and global markets, and financial deregulation, all combine. Moreover, let's not forget the new Fed Chair – whoever is promoted in mid-May will likely have an dovish bias with significant impact on short rates, paving the way for further monetary easing.

As we posited in last quarter's DM Market Outlook (as of 1 October 25), "the next 9 to 12 months should see another ~10-15% gain since the recent Fed rate cut". Three months forward from that outlook we have barely achieved 3-4% – as measured by either S&P (USD) or MSCI World (EUR) – of the anticipated 2026 gain. Global central bank rate decisions – including the latest mid-December Fed Cut – continue to support the scenario of markets hitting new highs during 2026. While interest rate derivatives are pricing a 90% probability of a hike in Japan, there are few prospects of tightening in the rest of the world, which means 2025 will have seen the least number of rate hikes around the world since 2020. This continued pattern of rate cuts – G10 central banks shaved 850 bps off benchmark rates in 2025 – will support global markets in 2026.

Key Theme 1: AI demand and capital markets activity

The momentum of corporate AI adoption built throughout 2025, supporting return on invested capital (ROIC) – a favored metric of corporate quality – through operational efficiency gains. We continue to expect technology demand to remain intense during the AI capex cycle in 2026. Although we read news stories suggesting corporates are cautious about AI adoption, Nvidia recently reported continued strong demand for its chips, which supports our view on 2026. Combining the AI capex with other standard barometers of economic strength (including the 2.0% Bloomberg's consensus GDP estimate for 2026), along with the average US household anticipating more than USD 2,000 in tax cuts, and easier credit conditions, we conclude that the outlook for US equity markets is strong. The positive outlook is reinforced by the increase in general capital markets activity. For example, in Q325 we saw both (i) an M&A resurgence, with announced volumes up 43% year-on-year and (ii) IPOs increasing by 67% from 60 to 100 compared to Q324.

Key Theme 2: Consumer Spending

While AI spending is contributing meaningfully to US growth (and global growth), investors should be laser-focused on 2026 consumer spending. Consumer spending as a contribution to GDP growth is still much larger compared to estimated AI spending and fixed investment. Data since US Thanksgiving week show consumer discretionary stocks in the MSCI World have rebounded, aided by recent earnings and holiday shopping season results. Consumer spending, which accounts for nearly 70% of economic output, grew at an annualized pace of 3.5% in Q3, led by increases in healthcare and international travel. While we acknowledge the K-shaped dispersion among income cohorts, it doesn't appear to be undermining the overall macroeconomic picture yet.

“All sectors are expecting earnings growth in 2026

We expect revenue growth for middle-income consumer stocks to accelerate by early 2026. Goldman Sachs economists forecast 2026 real income growth exceeding 2.5% for the third- and fourth-income quintiles as the tariff impact on inflation diminishes, and the tax cuts passed in last summer's fiscal package translate into refunds. The OBBB provides a macro catalyst in multiple ways, including the removal of tax on tips and removal of tax on overtime, implying a more than USD 1,000 average tax refund check. Labor market stabilization may also support income and spending growth. We will continue to pay close attention to consumer behavior in the new year to identify the corporates benefiting from high and middle-income consumption, and whether there is value-seeking consumption or renewed confidence in discretionary purchases. In 2025, consumer staples and consumer discretionary sectors were two of the three worst-performing sectors, but we are monitoring signals that consumption trends could move in a positive direction as the monetary and fiscal stimulus broadens consumer strength.

Key Theme 3: Earnings roadmap suggests increasing market breadth

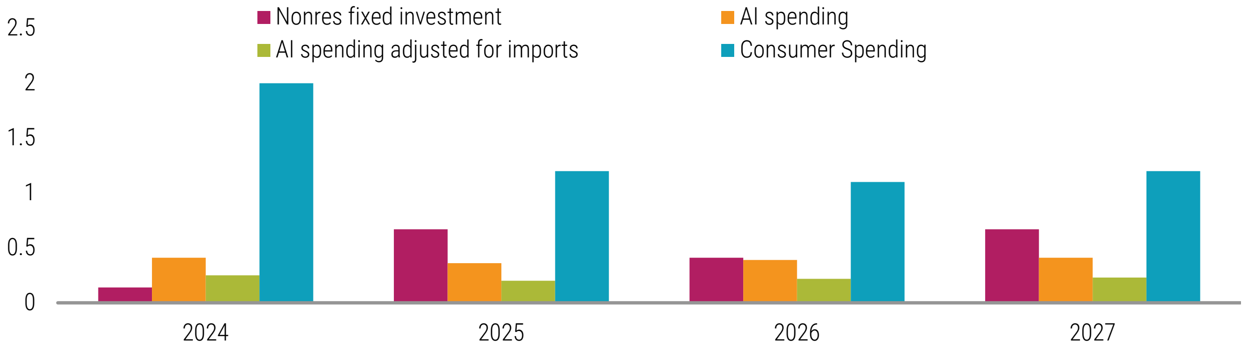
FactSet consensus expects the S&P 500 to report double-digit earnings growth for the second and third straight years in 2025 and 2026. The estimated (year-over-year) earnings growth rates of 12.1% (2025) and 14.5% (2026) are both above the 10-year average. Ten out of eleven sectors are predicting earnings growth in both years, except for the energy sector for 2025. All eleven sectors are predicting earnings growth above 5% for 2026.

The Robeco Global Stars strategy prefers US to European equities

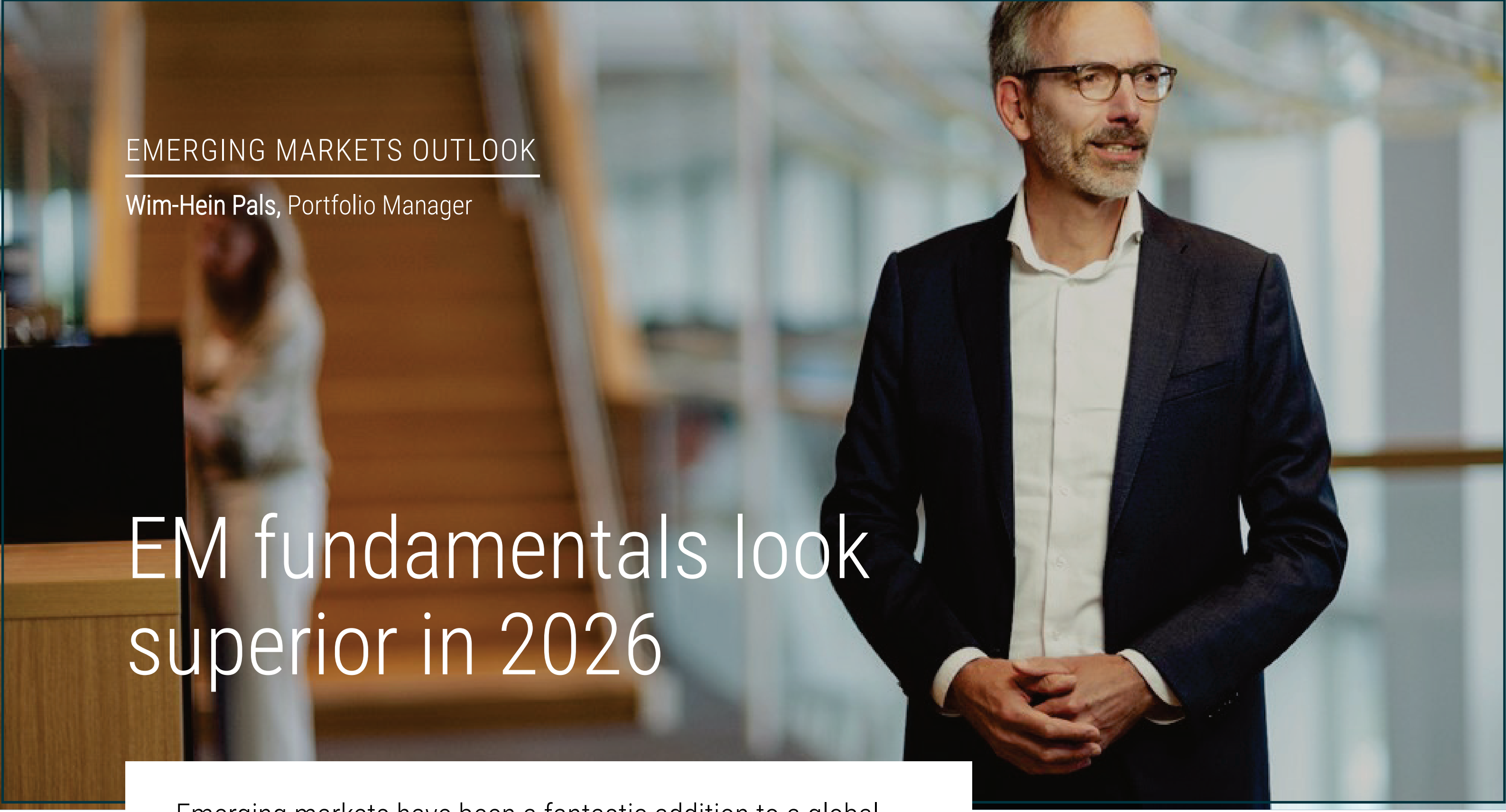
We have a modest overweight on US equities and project double-digit returns in the year (which will also benefit the rest of the world) and a small underweight in European equities. These earnings figures support market breadth, rather than narrow markets focused exclusively on Mag-7 or AI-exposed companies. In fact, the earnings-growth forecasts for Mag-7 are closer to the forecast for the other 493 companies compared to the prior two fiscal years. We believe this narrowing of growth expectations is a healthy sign pointing to greater emphasis on stock selection in 2026. Within our top 10 active weights, our largest overweight can be found in health care exposure including US companies Eli Lilly and Thermo Fisher Scientific. AI spending supports several of our other top holdings, including Alphabet, Applied Materials and Taiwan Semiconductor. Capital Markets and banking deregulation support two more of our top active weights, namely in JP Morgan Chase and BBVA. We are also looking to add exposure to software companies benefiting from AI-related projects.

*These are not buy, sell, or hold recommendations. Holdings are subject to change and shown for illustrative purposes only to demonstrate the strategy as of the stated date. Future inclusion of these securities in the strategy is not guaranteed, nor can their future performance be predicted.

Figure 1: Percentage Contribution to real GDP growth



Source: BEA, Haver Analytics, Morgan Stanley Research estimates, December 2025



EMERGING MARKETS OUTLOOK

Wim-Hein Pals, Portfolio Manager

EM fundamentals look superior in 2026

Emerging markets have been a fantastic addition to a global equity portfolio in 2025 and there are good reasons why 2026 could see repeat outperformance of developed peers.

Outperforming DM in 2025

The MSCI Emerging Market IMI index has risen more than 26.7% in 2025 at the time of writing,[1] similar to 2024. The significant difference is that emerging markets have, this time, handsomely outperformed developed peers. Bitcoin also had a much better return than Emerging Markets in 2024. But bitcoin investors are facing a loss of 6.4%[2].

There are many reasons for this year's superior returns in emerging markets. First, there is the time-honored valuation gap, both in absolute and relative terms. In particular, the attractive valuation parameters compared to rich industrialized countries have at last been noticed by international investors. Second, earnings rose faster in the emerging world than in mature markets.

Earnings boost

2024 was the first year in which corporate profits of emerging companies rose faster on average than in developed markets, at 21% versus 9%. The trend continued in 2025, with earnings growth in emerging markets reaching 12% versus 9% in developed markets, according to IBES consensus expectations. Thirdly, there was a reallocation of investments from expensive US equities to the cheaper markets globally, with the weak US dollar offering a helping hand. Fourth, emerging equity markets have been extremely underrepresented in global portfolios. And finally, the macroeconomic environment in the emerging world was more constructive than in the mature world: Robust economic growth combined with healthy balance of payments and budgets, compares favorably to immense twin budget and balance of payments deficits in the US.

Korea leads

The major breakout story in EM this year was Korea, propelled by the twin engines of AI-related memory demand and governance reforms. The presidential election in June reinforced the conviction in the continuation of corporate reforms and drove a strong 80% year-to-date rally in MSCI Korea (in EUR), which we think still has legs.

China's tech-led equity revival

China's DeepSeek moment earlier in the year marked an inflection point for its AI and semiconductor ecosystem. The rapid adoption of locally developed, cost-efficient models signaled China's ability to compete in advanced AI even as export controls tightened on high-end chips. It also reinforced expectations of accelerated domestic substitution and state-backed strategic investment in AI infrastructure. Policy remained supportive, albeit calibrated, and indicated a turn towards supporting consumption as well as supply-side reforms in industries running at significant overcapacity (anti-involution).

[1] MSCI EM IMI index performance in USD year to 16 December 2025 was 26.7%. MSCI World IMI index performance in USD year to 16 December 2025 was 20.00%

[2] Bitcoin performance in USD, year to 17 December

“There remains a structural underestimation of potential

India: Overvalued
India was a notable underperformer, owing to lower beta as well as negative flows from foreign institutional investors, although the macroeconomic fall-out from the hefty tariffs from the US has so far been muted. Taiwan, along with other Asian exporters, was buoyed by surging tech exports, even as concerns on the AI theme reaching bubble territory surfaced.

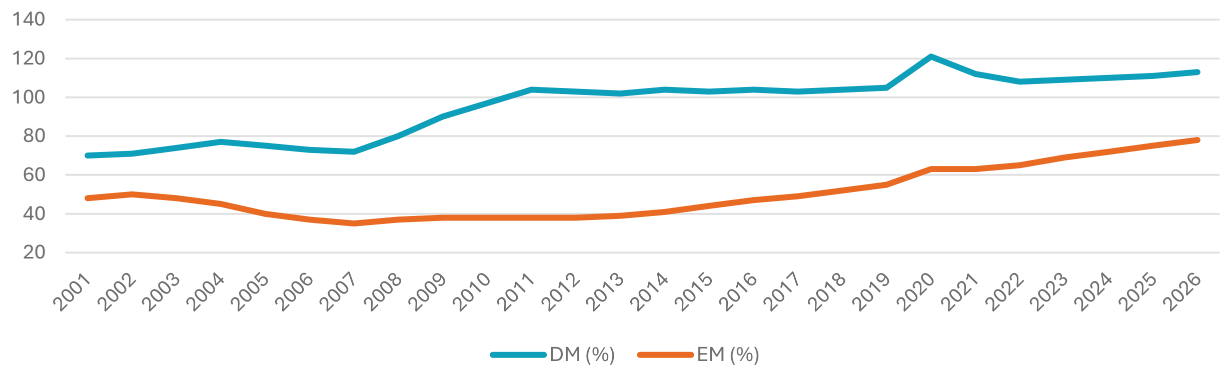
EM: A constructive outlook in 2026
EM equities are poised for robust performance in 2026, in our view, supported by easing monetary conditions, higher earnings growth, attractive valuations, further improvement in corporate governance and healthier fiscal balance sheets. The valuation is still very attractive with a discount to developed markets that has narrowed slightly, but is still a generous 30%. That is an untenable anomaly, but it is not just a valuation story. We think the trade war is now pretty much priced-in to EM assets and the consensus for 2026 expects earnings growth to pick up across the board: 17% earnings growth for emerging, 13% for developed It will therefore be the third consecutive year that the earnings environment in emerging countries is better than in the rich countries.

Fiscal prudence
In the meantime, many emerging countries have shown strong commitment to fiscal discipline since past crises, often guided by fiscal rules. The aggregate fiscal deficit for EMs is forecast to be around 4.2% of GDP in 2026, which should help stabilize their debt dynamic. On average, DMs had a public debt-to-GDP ratio of more than 110% (2025), whereas EM ratios stand below 80%, based on IMF data (see Figure 2).

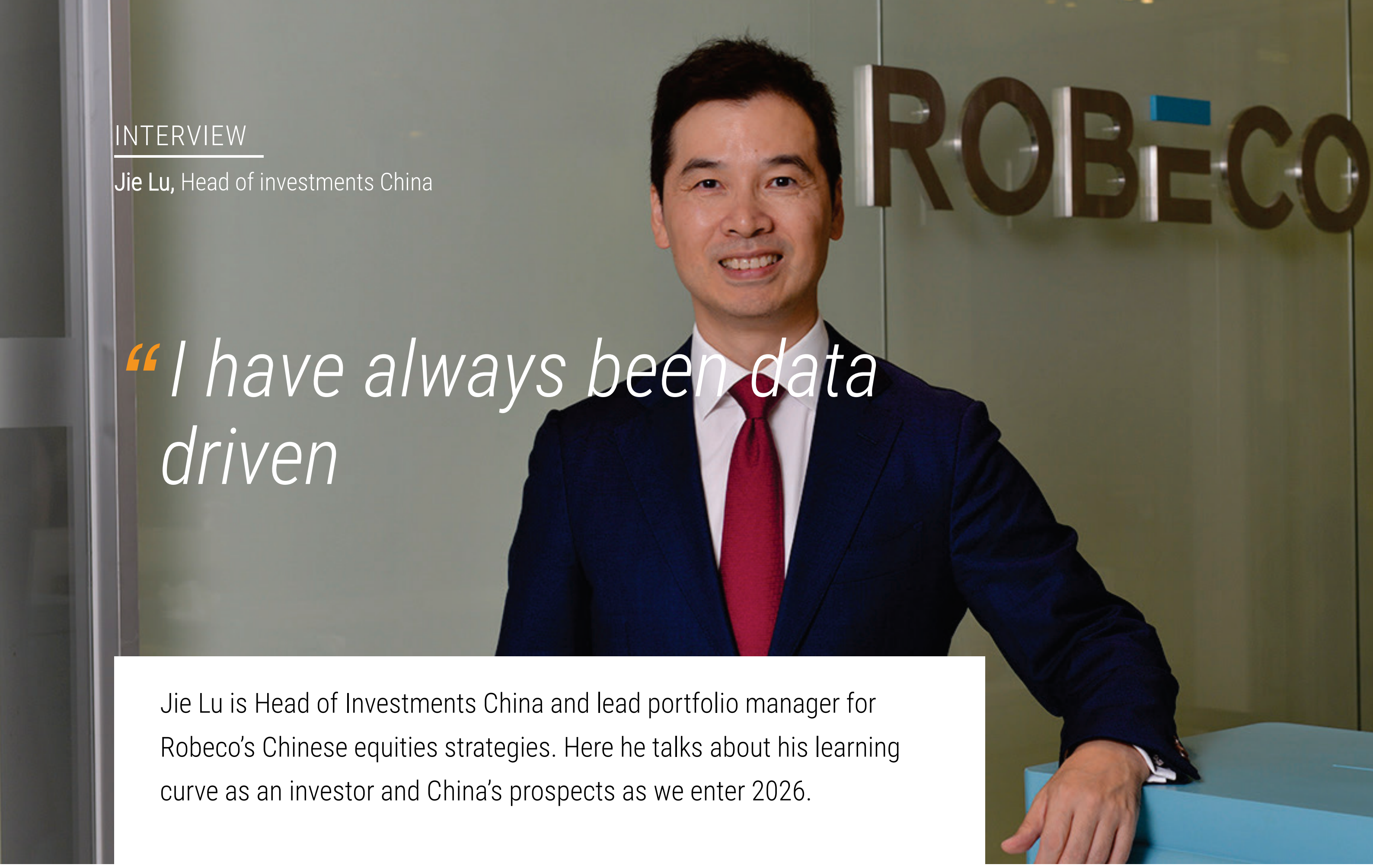
Our focus countries
In our Robeco Emerging Markets Equities strategy, we remain overweight in Korea (governance reforms, strong memory demand) as well as Indonesia and Vietnam (both blessed with high growth and attractive valuations). On China and India we remain cautious, the latter due to still too-high valuation metrics. In China’s case, the latest earnings numbers show a slow earnings recovery, with EPS growth being powered by buybacks and margins. In the rest of EM, we like South Africa (boost from terms of trade, the gold and platinum group metals rally, lower bond yields, and early reform success), the UAE (long-term growth compounding), Greece, and Poland (boost from EU investment). In Latin America we prefer Mexico and Chile over the others.

The bottom line: Investors remain under-allocated to EM
From a slightly longer-term perspective, the emerging world accounts for 40% of nominal economic growth and is responsible for about 70% of real growth in the world. Yet emerging market equities still make up only 11% of global investment indices. In our view, this reflects a structural underestimation of potential which will change over time and support EM assets in the long term.

Figure 2: Public debt as a percentage of GDP, DM versus EM



Source: Robeco, JP Morgan Equity, IMF data



INTERVIEW

Jie Lu, Head of investments China

"I have always been data driven

Jie Lu is Head of Investments China and lead portfolio manager for Robeco's Chinese equities strategies. Here he talks about his learning curve as an investor and China's prospects as we enter 2026.

What originally got you into investing?
My path is not traditional. I have a background in science and studied biochemistry at university in Shanghai and then completed a Master's in computer science in the US before my first job as a software engineer for Motorola. I think that the scientific background gave me something important – a bias for quantitative analysis. I like problem solving and deconstructing complex systems, so I have always been data-driven, which has helped me as an investor. At Motorola I got into a leadership program that basically rotated through functions like operations, marketing, and even HR. That was another important grounding in understanding how business really works and gives me a different perspective from many peers.

At the same time I was studying an MBA part-time and eventually landed a job in the Motorola strategy team. We had internal venture capital to deploy, so I was working on acquisitions, which was basically my start in investment. In that role, I was evaluating a wide range of internet, consumer, and tech startups for potential strategic fit to Motorola. Although I was based in Chicago, my work required spending time in Beijing, where I realized these startups represented something bigger: a fundamental shift in the Chinese economy toward consumption and digital innovation. It became clear that the next decade's growth story was there. That insight drove me to return to China. I moved to Hong Kong and that's where I switched to investment banking, first with Norges Bank and then Morgan Stanley, before joining Robeco in 2015. I love investing because it's analytical, and demands accountability and intellectual honesty. The market eventually tells you if you're right or wrong and you have to be true to yourself.

What makes a good stock?
My framework is simple: a durable moat, strong execution, shareholder-aligned governance, and a fair price. First, the competitive advantage that's in the business model, so that could be a strong brand, a network effect, a technology advantage, or a structural cost advantage – basically a moat. That protects you across the economic cycle. Then I look at the execution capability. Can the management team consistently deliver and implement the strategy? And the third one is sound corporate governance because even if you have a good business, if transparency is absent or the interests are not aligned with shareholders, then this doesn't make a good stock. I believe if you find a business like this and pay a fair price then eventually the stock will take care of itself. That renders broader market volatility as noise and a potential opportunity.

What's your biggest lesson learned over the years?
Resilience. You can't predict the future or rely on consensus. Volatility is inevitable whether it's bubbles or trade wars or natural disasters. That is why resilience is critical: it provides the internal discipline and conviction needed to invest through these periods of stress and through the economic cycle.

Chinese equities have recovered in 2025, but is the macroeconomic backdrop strong enough to sustain equity strength in 2026?
2025 is interesting if you just look back. You have the DeepSeek moment and you have the gradual stabilization of the US-China

Jie Lu, Portfolio Manager

“*Consumption is a stated policy priority*

trade war – and those two factors have been the drivers. On the other hand, I would say property has continued to weaken, so there are countervailing forces. China’s growth engine is now from digital services, advanced manufacturing, and AI. I don't think property represents a systemic risk, and at the same time, looking externally, exports are still strong and there seems to be reasonable stability in trade relations with the US. China has proved it really holds some bargaining chips and Trump wants to focus on domestic affordability.

Furthermore, we are also likely to have liquidity support because monetary policy will stay accommodative, and I think the upcoming Fed rate cut opens up more policy room for China. Structurally, domestic equity flows are poised to rise, insurers are getting a lot of inflow due to low yields, and they will allocate to the equity market, while retail investors are moving some savings away from property and into the stock market. However, earnings is something that really needs to be watched because last year’s rally relied on some multiple expansion and so for 2026 we need some earnings resilience. The challenge is the deflationary environment, and I think there will be divergence between sectors but, overall, we remain constructive.

How does China’s emphasis on self-reliance square with its dependence on exports?
To prioritize domestic self-reliance without undermining the export engine, the policy being pursued is dual circulation. This involves keeping exports robust by industrial upgrading into high-value goods, and reinvesting the earnings into technological self-sufficiency, including AI, and the whole related value chain.

Do you expect more direct policies to support domestic consumption and what kind of policies might they be?
Consumption is now the stated policy priority, but the approach would be incremental. With the growth target likely set around 5%, that outcome appears achievable with some fiscal support, though not with dramatic measures – unless the property downturn deteriorates materially or export growth weakens sharply. We expect early-year support to focus on improving implementation of existing trade-in and equipment-upgrade programs, then gradually broaden toward service consumption, through measures tied to travel, education, and family support aimed at lifting the birth rate. Stabilizing the property sector remains essential as well, given the negative wealth effect weighing on consumer sentiment. Structurally, to support higher consumption they need to build a better social safety net in the long run as it's the perceived absence of economic security that’s behind the very high savings rate.

Which trends and opportunities are most prominently reflected in our Chinese equities and A-shares strategies?
We are committed to our barbell strategy. On one side, structural growth, on the other, value and high dividends. For structural growth a key theme is high-end manufacturing – from ‘made in China’ to ‘made by China’ with leading manufacturers increasingly establishing a global footprint. We also favor technology and innovation, driven by AI development and the push for self-reliance. On the other side of the barbell, we target value through high yield names capable of sustaining dividends in a deflationary environment, as well as beneficiaries of anti-involution policies, particularly in upstream industries where demand is firm, like aluminum for example.

Some experts say China is ‘winning the AI race’. Is that the perception in China too, and what are the best Chinese equity opportunities in the AI space?
The US and China can both ‘win’ in AI – but in different ways. The US will likely continue pushing the technological frontier, while China is building a near full-stack, parallel ecosystem spanning rare earths, energy and compute infrastructure, hardware components, models, and real-economy applications. Despite constraints at the leading edge of semiconductors, China is offsetting them through scale, low costs, and engineering execution: leveraging abundant renewables, strengthening critical connectivity inputs (optical modules and high-end PCBs) that also supply global value chains, and optimizing models to run efficiently on less-advanced GPUs. The result is an ‘efficiency playbook’ that drives inference costs down, speeds diffusion across platforms and industry, and enables an agentic future where low-cost systems can iterate at scale. Combined with a fast-follower ‘One-to-N’ commercialization playbook and deep engineering talent, this trajectory looks durable.

What’s been your best investment ever?*
I think Tencent in 2009 is still my best investment. Then there is CATL, which we owned from the IPO in 2018 and has been leading this whole energy transition. Lastly, Midea Group, an appliance maker, which we started investing in from day one in my Robeco time. Looking back, these three stocks perfectly mirror China’s multi-decade growth journey: Tencent captures the explosion of the mobile internet; CATL represents the green transition and high-end manufacturing going global; and Midea tells the story of the emerging middle class and the rising penetration of home appliances.

*The companies named on this page are for illustrative purposes only. No inference can be made on the future development of the company. These are not buy, sell or hold recommendations.

ROBECO EQUITY DAY 2025

James Campbell, Investment Writer

AI front and center

Robeco's biannual Equity Day brought together fundamental, thematic and quant equity teams to share ideas and extend collaboration. It's no surprise that one theme dominated.

On 27 November, Robeco's equity teams met in Rotterdam for a biannual Equity Day. The objective of Equity Day is to share investment intelligence, take a deep dive into some investment themes and renew or discover areas for cross-fertilization of investment ideas and processes. Kees Verbaas, Head of Fundamental Equity, Weili Zhou, Head of Quant Investing and Ralf Oberbannscheidt, Head of Thematic Equities, gave business and operational overviews for the three respective investment teams. In what has been a remarkable and volatile 2025 for equity investing, all emphasized that teamwork and sharing resources as well as insights were key to ongoing success.

"Some of the best ideas from our emerging markets team are now proving successful in our smart thematic strategies. That's the way to do it," said Ralf Oberbannscheidt, commenting on the value of sharing investment convictions backed by research and analysis across different product teams.

360 degrees of AI

Senior technology analyst, and Robeco Digital Innovations Equities strategy portfolio manager, Daniel Ernst, gave a whirlwind presentation of 60 slides in 25 minutes, arguing that AI is a transformational technology that extends well beyond LLMs or chatbots, and represents the next secular technology cycle, impacting every sector. Ernst divides the AI universe into three buckets – a foundation layer (for example model builders, semiconductor providers and hyperscalers), enablers (service providers, power & systems, and hardware) and adopters (industrials, consumer, cybersecurity, defense, transport, healthcare and every other sector over time). This encompasses almost all major equity sectors and themes – making the focus on Nvidia, OpenAI and US hyperscalers only part of the investment story.

The build out is getting more efficient

Ernst says that while computational requirements keep rising and the energy demands of new datacenters are sending electricity prices higher in some countries, there is good news. The total cost per floating point operation – a measure of computational efficiency – has fallen 75% in the past year, mainly due to the increasing energy efficiency of the latest Nvidia chips. And this trend is likely to continue.

Adoption is accelerating

In terms of adoption, Ernst told the group that while it's hard to please the skeptics, AI is now picking up lots of the weight in what he described as "humdrum" tasks like financial planning, data analysis and risk management in many corporates, delivering productivity improvements and potentially freeing professionals to add more value in creative and strategic projects. He said that agentic AI was also making progress with IT support platform ServiceNow reporting that use of agents has resulted in a 33% improvement in ticket resolution times. He added that robotics had long been one of the most exciting AI use cases and now robots are becoming capable of simple problem solving, rather than completing one repetitive task.

China's AI eco-system is ramping up

Robeco's Asia-Pacific team presented their constructive view on Asia-Pacific and especially China's AI status. Measured in dollars of investment, China's AI eco-system is dwarfed by the US but there are reasons to think it will be the US and China in parallel – and the 'race' analogy beloved by the media is irrelevant. Firstly China's current follower strategy has yielded solid results with the development of respectable LLMs like DeepSeek at lower cost. Second, commercialization opportunities in China's vast online and industrial marketplace abound. Innovation and development are all at lower cost – especially in energy where China's renewable build-out will yield benefits – and labor costs which are much lower due to China's huge STEM workforce. Adding in Asia-Pacific's overall importance to the AI supply chain globally, with China (server components), Korea (memory), Taiwan (semiconductor fabrication) and Japan (semiconductor packaging, materials, server power units) – this is far from a US-only story.

Conclusion: The multi-trillion dollar question

As well as presentations, Equity Day featured lively breakout sessions on how to analyze whether companies were effectively adopting AI and how to select beneficiaries and detractors in this new environment. The discussion of valuation metrics for the foundation layer, enablers and adopters naturally led to the question of whether there is an AI bubble. The consensus answer at Robeco is that, while some companies trade at 'bubble-like' valuations, the answer is no.

Carly Brewster, Client Portfolio Manager

Extending the universe

We have made several updates to the Robeco European Stars Equities strategy to give the investment team more room to navigate the rapidly changing universe while keeping sustainability firmly embedded in the process.

Effective from 1 December, Robeco European Stars Equities strategy will have access to a broader investable universe, aligning the strategy with evolving regulatory expectations. The changes aim to support long-term performance without altering the philosophy behind the strategy.

The most visible change is the simplification of the name to 'Robeco European Stars Equities strategy'. Removing 'Sustainable' brings the strategy in line with ESMA's new naming rules. It also releases the strategy from Paris-aligned benchmark exclusions, which were triggered by the previous name. This clarification gives the team more flexibility while maintaining the strategy's disciplined ESG integration.

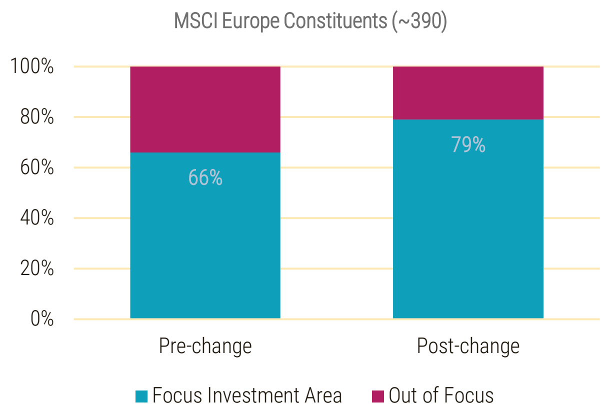
The update expands the investable universe from roughly two-thirds of MSCI Europe index names to around 80%. Until now, entire sectors and industries such as energy, aerospace and defense, metals and mining, and other commodity-related areas were fully off-limits under the more restrictive Level 2 and PAB exclusions. In practice, this meant the strategy could not invest in some companies that would have been eligible under Robeco's standard, firm-wide Level 1 exclusion policy. By moving to Level 1 and allowing selective exposure, we can now better protect alpha by accessing a wider cross-section of the market while maintaining a strong sustainability profile at the overall portfolio level.

These changes also reflect what we have heard consistently from clients over the past few years. Many have asked for a more balanced approach that preserves the return potential of a broad European universe while still honoring the sustainability principles they value. Competitors have already moved in this direction, and it was important for us to evolve in a way that keeps the strategy relevant, competitive, and true to its objectives. The updated framework aims to strike that balance.

A number of the strategy's binding sustainability elements remain unchanged. The strategy still maintains a carbon footprint at least 20% below its benchmark, keeps a stronger ESG score than the benchmark, limits exposure to companies with elevated ESG risks, and ensures that at least half of the portfolio is invested in companies with a positive SDG score. What is changing is the removal of the bottom-20-percent ESG exclusion rule and a move from Level 2 to Robeco's standard Level 1 exclusion policy. With the updated approach, the team can now bring its fundamental process to a wider range of companies and use that flexibility to add value.

The initial implementation shows this shift in a measured way. Around 3% of the portfolio has been allocated to names that were previously outside the remit but now qualify under the updated framework. The resulting active risk profile shows that company-specific risk has increased from 59% to 63%, while industry-level risk has declined from 23% to 18%, reflecting how the expanded universe allows stock selection to play a larger role in driving returns. Idiosyncratic risk may rise further as the team continues to build these positions.

Figure 3: Strategy's focus investment area as a share of MSCI Europe index



Source: Robeco, MSCI, December 2025

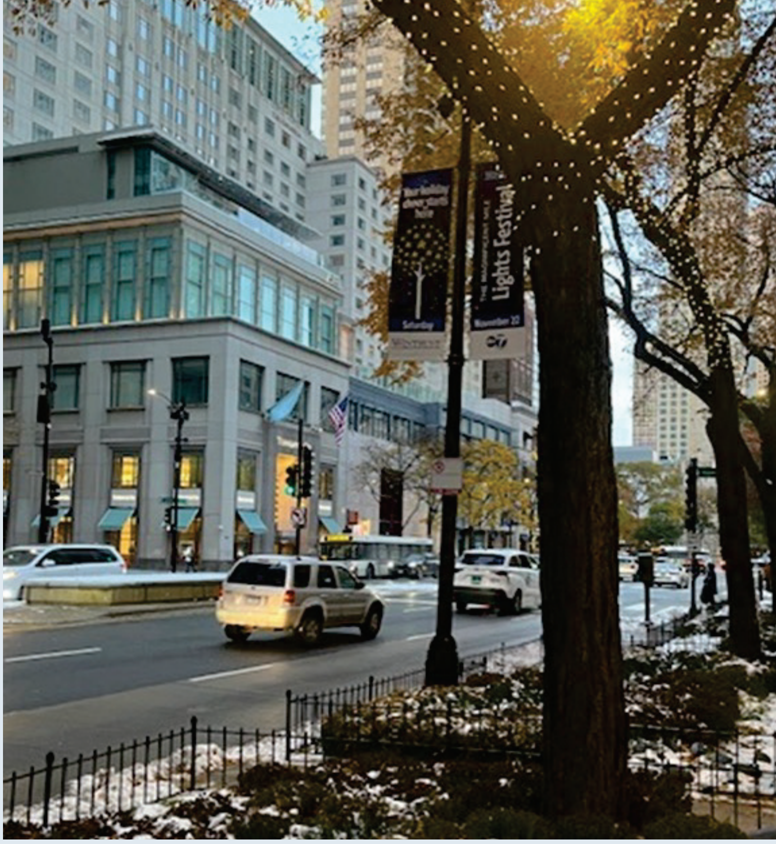
The broader focus enables us to better protect alpha and capture opportunities in:

- Energy
- Aerospace & defense
- Metals & mining
- Other commodity-related industries

TRIP NOTES

Jack Neele, Portfolio Manager

Industrials in the age of AI



In late November Robeco portfolio manager Jack Neele visited Chicago to survey the industrials landscape in this age of AI. The datacenter build-out is one obvious theme, while aerospace and defense demand remains firm.

A trip to the windy city in late November is not exactly on everyone's wish list but while there was some early snow on the ground it suited my purpose perfectly. Featuring over 250 companies, spanning electrical equipment & engineering, aerospace & defense, commercial services and building & construction, the Baird Industrial conference represents a solid cross-section of the US economic engine. As everyone knows, the talk of AI is so pervasive that it is very difficult to discern meaning from noise. As active managers that's exactly our job and it's vital we identify which sectors and companies are well placed.

Datacenter bonanza for industrials

The industrial companies exposed to the datacenter build-out, whether electric contractors, liquid cooling businesses, or interconnect systems suppliers, are thriving and are confident there's more room to run. Many of the companies have seen accelerating revenue growth, often in the 30-40% range, driven by demand from hyperscalers (Google, Meta Platforms and Microsoft), neoclouds (Oracle, Coreweave, etc.) and, more recently, enterprises and sovereigns.

In particular, liquid cooling penetration at datacenters is currently still at only single digits, and the suppliers in that segment expect to see it at 25% or more by 2028. In newly built datacenters, nearly 100% of the chips need to be liquid cooled, but there is a large backlog to convert older datacenters to the new technology. For a new datacenter build-out, the actual deployment takes place in stages. For example, a 1GW datacenter (~600 football fields in size) is built in 200MW chunks, and total deployment can take up to 3 years. As a result, many of these companies have a record-high backlog of work, giving them visibility for at least a few years. Finally, grid modernization is another market growing in parallel.

Can margin expansion be sustained?

The focus on speed, compared to cost, is an area of concern for me. The companies enabling the build-out have not only showed strong growth, but for all of them their datacenter exposure is higher margin, leading to even faster earnings growth. I question whether this magnitude of margin improvement can be sustained over the long term.

Consumer-focused suppliers subdued

In contrast to the companies focused on the datacenter build-out, sentiment among those with more exposure to the residential heating, ventilation and air conditioning (HVAC) market was subdued. High mortgage rates and consumer caution are slowing new home construction and reducing discretionary spending on big-ticket items like HVAC systems. Homeowners are opting for repairs instead. There is also aggressive destocking as distributors and contractors are cutting inventory after pandemic-era overstocking. This backdrop has led many of these companies to lower their organic growth forecasts for the medium term.

Aerospace is a secular growth story

Beyond AI-boosted sectors, the other sector that stood out for its secular growth prospects was aerospace. After a period of consolidation, the sector is well-positioned for growth driven by rising defense spending combined with defense modernization, plus commercial airlines seeking more sustainable and cost-effective service providers. The installed base of aircraft is growing and there is pent-up demand for engine overhauls as air traffic grows. Utilization is expected to remain at high levels in 2026. The positive demand outlook for commercial aviation is being augmented by increasing demand for aerospace services from both the defense sector, where procurement regulations are being relaxed, and the expanding space industry. As a result, we regard diversified aerospace, defense and electronics companies as an attractive long-term prospect.

Japan's strong equity fundamentals outweigh challenges

A more expansionary policy regime in Tokyo has sparked bond market concerns and kept the JPY subdued. Harfun Ven, Robeco Asia-Pacific equities portfolio manager, says any near-term volatility shouldn't distract from a strong equity market outlook for 2026.

A banner year for Japan

Japanese equities performed strongly in 2025, up 21%[3] after reaching record-high levels in 4Q, ignoring volatility in the bond market and geopolitical tension with China. Taking into account Prime Minister Sanae Takaichi's fresh attitude to both fiscal and foreign policy, we maintain a positive stance on Japanese equities and continue to hold an overweight position in that market in our Robeco Asia-Pacific Equities strategy. Japan's extensive depth and breadth, combined with frequently divergent opinions among participants, position it as an ideal arena for generating alpha. Corporate reform is a strong tailwind. We believe that governance reforms and heightened capital efficiency remain positive drivers for the equity market Although initiatives like the Corporate Governance Code – driven by entities such as the TSE and FSA –initially set Japanese corporations on this path, market dynamics have since taken the lead. We believe the FSA's 3rd revision of the Stewardship Code and the planned 2026 Corporate Governance Code revision will sustain this momentum despite some concerns about 'over-activism'.

Consolidation continues

Japan has transitioned from a deflationary regime to an inflationary one, where labor shortages now pose significant challenges in terms of rising costs and succession planning, ultimately driving greater industry consolidation. In this environment, capital is no longer cost-free, necessitating careful allocation strategies that foster long-term improvements in ROIC and ROE – metrics we prioritize over revenue growth without profitability. Beyond shareholder activism, we are witnessing increased activity in corporate-led initiatives, M&A, and unwinding of parent-child listings.

Inflation is a policy challenge

The foremost near-term risk is inflation. Recently, the yen has plunged further against the dollar, largely in response to Takaichi's aggressive fiscal expansionism. Though viewed as a protégé of former Prime Minister Shinzo Abe, the economic backdrop today starkly diverges from the Abenomics heyday. Inflation is weighing heavily on Japan, as wage gains trail, with yen weakness stoking import costs. Consider the Big Mac Index: Last year, Japan's burger inflation hit 12% versus just 2% in the US, yet the yen's depreciation left a Big Mac in Tokyo even more undervalued – around 46% cheaper in dollar terms compared to New York. Navigating this imbalance will require deft policymaking to avoid eroding household purchasing power. We are also aware that Takaichi has stated that reforms have focused too much on shareholder returns, rather than wage increases. This is another dynamic we are conscious of which could eventually negatively impact equities.

Underweight domestic consumption

Domestic demand faces ongoing headwinds, prompting us to stay underweight in that arena. Instead, we've pivoted toward domestic services, financials, and real estate – sectors poised to capitalize on inflationary tailwinds and M&A activity. Yen stabilization would mark a pivotal turning point, allowing wages to catch up and ignite broader consumption. Meanwhile, long-term bond yields, now hovering near 2%, are growing increasingly appealing to domestic savers, potentially drawing funds back into Japan. Another headline risk is Japan's diplomacy with China, but we dismiss this as having muted long-term consequences; Takaichi has demonstrated pragmatic flexibility in recalibrating her positions.

A still attractive set up

The market has traversed impressive ground this year, now trading at a forward P/E of around 14-15x. Over the past decade, EPS has compounded at 9-10% CAGR, supplemented by a 2-3% dividend yield and 1-2% buybacks – both of which continue to trend higher. At current valuations, this fundamental backdrop supports equity returns, and is likely to keep Japanese equities highly attractive to global investors.

[3] Topix index JPY year to close on 30 December 2025

COP30: Progress amid ambiguity

What did the world achieve at COP30 in Belem? Robeco's sustainable investment team analyzes the outcomes of the annual climate summit and its relevance for investors.

Amplified regional differences

COP30 made clear once again that multilateral collaboration has been eroded, producing a meager plenary outcome without useful language on fossil fuels or new binding targets. However, COP30 reaffirmed the commitment of countries to the goals of the Paris Agreement, mobilized new financing tools for climate adaptation, and launched several initiatives for accelerating the energy transition. The two priorities of the Brazilian COP30 Presidency – tackling deforestation and phasing out fossil fuels – were advanced outside of the plenary agenda as separate initiatives by coalitions of countries. Geopolitical fragmentation has amplified regional differences and increases the unevenness of transition-related risks and opportunities across sectors and regions.

A multi-speed energy transition

As the world's ninth largest oil producer, Brazil proposed discussing a roadmap away from fossil fuels. Strongly opposed in the plenary, the initiative will be taken forward by an EU-led group of 80 nations. However, key players like the US, China, India and Saudi Arabia, are missing. While COP30 failed to deliver a clear policy signal on fossil fuels, the 2025 World Energy Outlook (WEO)[4] leaves no doubt about the direction of travel. The WEO shows that the world is heading toward the 'Age of Electricity'.

[4] World Energy Outlook 2025 – IEA website

Powering past coal

Under all scenarios, coal demand falls. We saw this trend at COP30 with South Korea and Bahrain signing up to the Powering Past Coal Alliance. For oil and gas, future demand varies across policy scenarios. This energy shift is unfolding without government orchestration. Investors should anticipate a disorderly transition, with widening regional differences in speed, and amplified return premiums for opportunity and risk. For example, despite significant climate policy rollbacks, clean energy stocks are seeing a strong rebound and have outperformed the global index by more than 25% in the year to date.[5]

Adaptation and nature in focus

The policy ambiguity reinforces the reality that temperatures will continue to rise and extreme weather events will increase. One of the landmark outcomes of COP30 was a goal to triple adaptation finance by 2035. The Tropical Forest Forever Facility (TFFF) was launched with USD 6.7 billion in commitments and a long-term goal of investing USD 125 billion. As an early supporter in developing the TFFF, Robeco led a collaborative investor engagement with the Dutch government which resulted in a financial contribution to the start-up costs of the fund.

Broadening the investable transition

In the coming years, the investable transition will broaden from clean energy and low-carbon to nature-based assets and adaptation finance. We foresee growth opportunities in fixed income (e.g. sovereign adaptation bonds), private markets (resilient infrastructure) and industries such as construction, engineering, agriculture and pharma. Physical resilience will become increasingly material for portfolio construction and as it is location-specific, understanding regional and local differences will be critical for capturing premiums from risks and opportunities.

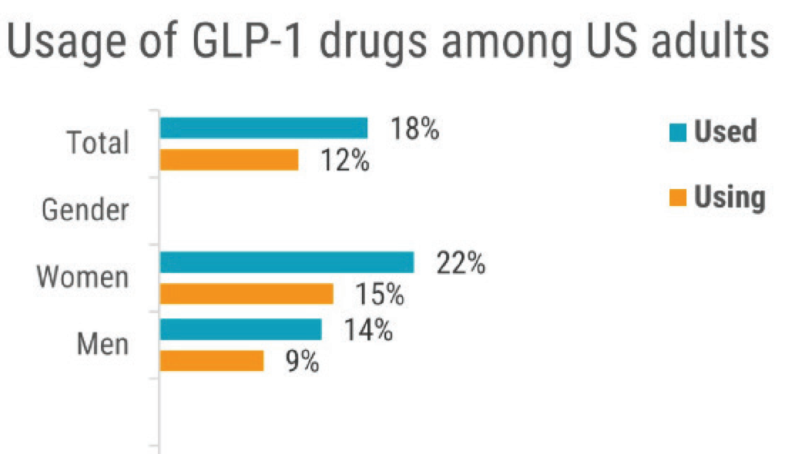
[5] Based on the S&P Global Clean Energy Transition Index and the S&P Developed Large and Mid-Cap Index, as of 28 November 2025.

The Investment opportunity

Overall, COP30 did not send a strong signal for global collaboration on climate change. From Robeco's perspective, this is a moment to double down on the principles in our 2025-2030 climate and nature roadmap. Where governments use ambiguous or uncommitted language, corporate transition plans become even more material. As an active manager, we view this as an opportunity. Our fundamental research and proprietary climate and nature analytics enable us to identify transition leaders from laggards. It also strengthens the case for active ownership by using the stewardship instruments of engagement and proxy voting. Supporting firms in developing credible transition plans can help create outperformance and shareholder value creation. Similarly, active ownership can help firms to avoid stranded assets or value erosion.

Tipping the scales

GLP-1 drugs are set to go mainstream with one in eight US adults currently using them, oral versions being launched and prices dropping. A recent survey shows 12% of US adults using GLP-1 drugs, up from 6% a year ago. GLP-1s are indicated to treat diabetes, obesity and several co-morbidities, including heart failure. Adoption is highest among women and 50-64-year olds. Yet, affordability remains a hurdle – half of users report cost concerns. These cost concerns will likely decrease as the largest branded producers, Eli Lilly and Novo Nordisk, are cutting prices and there is ample availability of lower-priced copycats. The expected launch of oral versions (or 'weight-loss pills') in 2026 could accelerate uptake. Beyond healthcare, the ripple effect may hit food and beverage industries as consumers reduce their intake and shift habits.



Source: KFF, November 2025

For more stunning statistics, scan for the Robeco Thematic Equities team's Daily Sketch here

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