

# RATHBONES CHARITY GROWTH & INCOME FUND

QUARTERLY UPDATE MARCH 2026

**After a period in which central banks and inflation data largely drove markets, geopolitics returned firmly to the foreground during the first quarter of 2026. The escalation of conflict involving Iran served as a stark reminder that political risk has not gone away – nor has the world’s reliance on oil and gas.**

Despite sustained political focus and ambitious decarbonisation targets, the global economy remains reliant on carbon based energy. While there has been meaningful progress in increasing the share of renewables within the energy mix, oil and gas continue to play an important role in powering our economies. Energy remains fundamental to transport, heating, food distribution, industrial production and digital infrastructure, meaning that disruptions can have far reaching effects.

Recent geopolitical tensions over the Iran conflict highlighted this ongoing reliance. Concerns around the security of key supply routes, particularly the Strait of Hormuz, led to higher energy prices during the quarter, unsettling equity markets and weighing on broader investor sentiment.

For our fund, which maintains an explicit ethical exclusion of fossil fuel producers, these developments reinforce, rather than undermine, the investment rationale. Episodes of elevated and volatile prices for carbon based energy underscore both the strategic importance of energy security and the economic opportunity inherent in the transition toward cleaner alternatives. At current energy price levels, the relative competitiveness and return potential of renewable energy and related infrastructure investments become increasingly attractive, supporting investment in low carbon solutions consistent with our fund’s objectives.

More broadly, energy price shocks matter for portfolios not only through their impact on inflation, but also because energy markets often behave differently from other risk assets during periods of stress. This further highlights the role that diversified exposure to renewables and transition aligned assets can play within a long term, ethically focused investment strategy.

## **Volatile markets and unreliable defences**

Equity markets were choppy throughout the quarter, with several sharp sell offs followed by partial recoveries. Traditional assumptions about diversification were tested. Government bonds, which many investors expect to provide ballast during equity drawdowns, were inconsistent, while many consumer staples – often labelled ‘defensive’ – failed to offer the shelter some might have hoped for. Thankfully, ours actually held up well.

In mid-February, before the fighting began in the Middle East, we sold our longer-dated **UK Government 4.25% 2049** bonds. The yield had fallen, and we thought the government’s political future looked grim. The U-turn on delaying a slew of council elections in May, to us, seems likely to increase the chance of a big loss for Labour. If that happens, Prime Minister Keir Starmer’s position will be shaken further and his most likely successors could frighten bondholders. While about 15% of our portfolio remains in UK government bonds, we felt it prudent to remove this very long-dated bond that would be most vulnerable to any gilt market sell-off.

Because of our ethical exclusions, we don’t own oil and gas companies. Obviously this held back our fund, as this was the best-performing industry because of a jump in oil and gas prices over the quarter. We do own some energy businesses, in particular those that provide the infrastructure for electricity networks. While these companies didn’t make the large gains that oil and gas majors did, they were broadly resilient.

We had added to our holding of these sorts of businesses by purchasing German energy networks and electrical engineering giant **E.On** in February. We managed to complete the position in the turmoil of March markets. Since 2016, the business no longer generates power, instead focusing on owning and maintaining the power and gas lines and selling the power to retail. It has roughly €50 billion of assets across Europe, with this forecast to grow by high single digits through to 2030, at least as investment pours into electricity grids because of AI demand and the growth of renewable energy. Germany is particularly well placed, given the nation’s decision to earmark €500bn for infrastructure investment over the rest of the decade.

We also bought **Siemens Energy** in early March. The former gas and power division of the greater Siemens group, it was spun out in mid-2020 along with windfarm developer and servicer Siemens Gamesa. Now, Siemens Energy’s business is roughly split by thirds into windfarms, gas turbine construction, and electric grid products and services. Electricity demand is increasing rapidly, which leaves Siemens in a great position: it supplies the parts for sustainable power and makes the heavy-duty equipment needed to maintain, expand and improve the high-voltage transmission lines that move power from where it’s generated to where it’s needed. We think this is a quality operator that’s delivering parts and services to greatly expand electric power across the supply chain.

**The copper lining: electrification**

Grid optimisation, electrification and rising power intensity is steadily increasing demand for copper, the world's default conductor. The war in Iran and the spike in oil and gas prices will only encourage more households, businesses and governments to seek out renewable alternatives, further straining copper supplies. Matching that copper demand with greater supply will be tough, in our opinion, after years of underinvestment in production. With that in mind, we made two new investments.

One was the **Morgan Stanley 17.5% Copper Callable Green** structured product. Demand for copper looks well supported for the next few years, with supply likely to struggle to keep up with demand after years of underinvestment in production, providing a structural support for the copper price. This product is a contract with an investment bank that gives us the return of the copper price, capped at 17.5% in return for complete capital protection.

The other was buying shares in **Freeport McMoRan**, which owns some of the world's largest, lowest cost and longest life copper mines. These include the 1.5-mile-wide Grasberg opencast site in Indonesia (in partnership with the Indonesian government) and a diversified portfolio across Latin America. The scale and quality of these assets underpin its position as one of the higher quality miners in the sector. With revenue closely linked to copper prices, Freeport offers direct leverage to commodity price inflation at a time when supply remains constrained and investment requirements across the energy transition are rising.

**Portfolio positioning and stock level experience**

Overall fund performance was poor, yet we did receive strong contributions from communication services, real estate information technology and materials. Select weakness in industrial, healthcare and banking stocks (and energy, which we've already mentioned) held us back.

Certain technology and infrastructure-linked holdings also played an important role. High-end computer chip manufacturing equipment makers **ASML** and **ASM International**, and chip makers **Taiwan Semiconductor Manufacturing Company** and **Texas Instruments**, did well, reflecting continued demand for infrastructure to support greater use of AI. Data centre operator **Equinix** similarly performed well due to this ongoing theme, as well as the defensive growth characteristics of the business.

Our industrial holdings were a mixed bag, but ultimately a detractor to our performance. Tractor-maker **Deere** and plumbing and waterworks supplier **Ferguson** both did well as markets marked them beneficiaries of greater global capital expenditure and infrastructure investment. Industrial gas business **Linde** switched from being one of the fourth quarter's biggest laggards to being one of the top contributors in Q1. This reflects its high-quality industrial profile and exposure to long-term growth areas.

The healthcare sector was an area of weakness for us, with notable weakness from medical devices companies **Boston Scientific** and **Abbott Laboratories** on global growth slowdown concerns.

AI fatigue really hit certain sectors, and new AI agent launches further cannibalised software and services valuations in the blink of an eye over the quarter. Consequently, we saw a rotation away from several of our high-quality growth and compounder holdings as market leadership shifted and valuation sensitivity increased. **Microsoft** was the single largest detractor to our portfolio in the quarter, down circa 25%. German business data systems specialist **SAP** and IT helpdesk platform **ServiceNow** also performed poorly. We kept SAP, but we sold ServiceNow completely.

This broad software and IT services weakness is driven, in large part, by the standard business model for such companies: selling access to their programs by 'seats', i.e. the more users, the more revenue. This would come unstuck if AI means fewer workers doing more with existing tools. In that situation, software companies could lose sales even as they take market share. This cocktail of risks sent software companies tumbling in the first quarter. When measured against the broader S&P 1500 index, the software industry's 36% peak-to-trough drop was one of the worst ever.

However, this fear-driven drop has captured some companies unfairly. Technical and scientific journals and data publisher **RELX** hasn't buried its head in the sand over AI. Instead, it's been investing in AI and its data analytics division for many years before AI really blew up: it seems the sort of data company with strong assets that should benefit from AI tools that make its info more accessible and insightful to users. Its earnings per share and profit margins have improved steadily over the past five years with strong underlying cashflow. We are sticking with the business and added to our holding this quarter.

**2026 SOFTWARE ROUT WORST VS MARKET IN 30 YEARS OUTSIDE RECESSION**



Source: FactSet, JPMorgan Research; data S&P 1500 Software vs S&P 1500 rolling 1-year worst drawdown in GBP between 1 January 1996 and 31 March 2026

We also added to Canadian e-commerce platform **Shopify** because we think it should also benefit from AI tools, rather than be hurt by them. We bought more shares in computer chip designer **Nvidia**, too. Its chips are still the gold standard of AI data centres. The trajectory of its sales is still resolutely upward. We had taken profits steadily as the company's valuation increased. We took the opportunity to add back to our position after a material drop in its price-to-earnings ratio, which fell from roughly 32x to below 22x in March (its lowest point in five years).

**NVIDIA IS AT RECORD HIGHS, BUT IT HASN'T BEEN CHEAPER IN 10 YEARS**



Source: FactSet; share price in USD, PE based on 1-year-ahead forecast earnings, data 1 January 2016 to 31 March 2026

**When you invest your capital is at risk and you could lose some or all of your investment. Past performance should not be seen as an indicator of future performance.**

Widespread concerns about private asset markets (mostly credit, but also equity) smoulder on, with many high-profile retail-facing funds getting flooded with redemption requests. Private assets aren't inherently bad. These loans aren't wildly different to those that banks used to provide. Most of them are relatively conservative and backed by assets. The problems come down to two things. Firstly, many of these funds are full of loans to software businesses that are suffering from the AI threat. Secondly, too much retail money has chased this asset, pushing up prices and eroding the quality of the loans being made.

Our position in alternatives fund manager **KKR** (which includes private asset funds) fell as both market volatility and worries about credit contagion hit alternative asset managers. We have faith in the quality of KKR, and added to our holding on the weakness. The best time to buy these sorts of assets is right now: when people are running for the hills.

We took advantage of a tough quarter for banks to add global lender **HSBC** to our portfolio. We felt this well capitalised bank was unloved. Following a multi year period of restructuring, the group is leaner, more focused on profitable countries rather than trying to be everywhere. It's generating robust cashflow across its businesses, particularly in Asia. With its price dropping below 10x next year's earnings in March, we took the opportunity to buy. HSBC offers attractive, cash-backed profits, supported by relatively low levels of debt and disciplined management. Together, these qualities mean the shares can play a useful role in portfolios – offering both income and resilience, while retaining the potential to benefit if investor confidence in the banking sector continues to improve.

Another addition to the fund was long-standing, solid and diversified industrial engineering business **Parker Hannifin** (best known for its aerospace division that's roughly 30% of its revenue). Parker is one of the least exposed to Trump tariffs as it's local-to-local, not a big importer, with less than 10% of input costs for their products imported from outside the US. A period of trade disruption could also benefit them as they might try to gain share from less locally reliant competitors who need to raise prices. We think this is a premier industrial company that can compound steady gains in sales and profits through a highly lucrative 'razor-and-blades' business model. A big portion of its revenue comes from recurring aftermarket parts and servicing (the 'blades'), which tend to make more profit from each dollar of sales than one-off kit sales (the 'razor'). We think Parker is perfectly positioned to capture long-term tailwinds from renewals of commercial aerospace fleets and the reshoring of manufacturing infrastructure.

**Looking ahead**

Periods like this underline the importance of diversification and discipline. Political outcomes are inherently difficult to predict, but portfolios can be constructed to withstand a wide range of scenarios. Our focus remains on investing in assets capable of generating sustainable income through the cycle, while retaining flexibility to respond to market dislocations when opportunities arise.

While uncertainty remains elevated, we believe that maintaining a balanced, income focused approach leaves our fund well placed to navigate volatility and continue meeting its long term objectives.



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For more info on our fund, including factsheets, performance and fund manager views, please click [here](#).

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