



The challenges of a K-shaped economy and equity markets also create investment opportunities

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The challenges of a K-shaped economy and equity markets also create investment opportunities

Since 2020, five major shifts have led to the current K-shaped growth structure of the global economy and equity markets, with huge divergence between winners and losers.

Today, economic growth and equity market leadership are very narrow and rely on a few. This has created a more volatile and uncertain environment, but also opportunities for active investment management.



Bo Knudsen
CEO & Portfolio Manager

Five factors of change

The five important factors of change over the past 5 years have been 1) rising real rates going from being negative into a positive territory, 2) geopolitical fragmentation, 3) post-Covid disruptions, 4) the rise of AI, and 5) the dominance of passive flows.

- The transition from near-zero rates to a range of 4–5% with real rates now in positive territory has reset the global anchor for financial markets. The very low rates rewarded sectors like technology and renewables with valuations implying flawless growth. This has later spread to other parts of the broader market, inflating multiples in consumer, health-care, and industrials well beyond sustainable levels. The tightening cycle forced a reset and consolidation, where the share price of many long-duration companies suffered as the valuation steadily declined despite their continued stable earnings growth. We believe this devaluation and consolidation of long duration assets is now largely behind us.
- The re-election of President Trump has underscored the shift away from a rules-based global order toward more by power politics, regionalisation, and nation-states. One clear consequence is the reconfiguration of supply chains: rather than optimising purely for efficiency and profit, companies are now building for geopolitical resilience. That means more duplication, less inter-regional reliance, and a new capital expenditure cycle as firms adapt production and logistics to a more fragmented world.
- The aftermath of the pandemic created rolling recessions across sectors, as business cycles and inventories took much longer to normalise than expected. While these effects are now fading, they left deep marks on global supply-demand dynamics. As a result, companies that built resilience during the turbulence are emerging stronger, while more cyclical businesses may face structurally lower predictability.

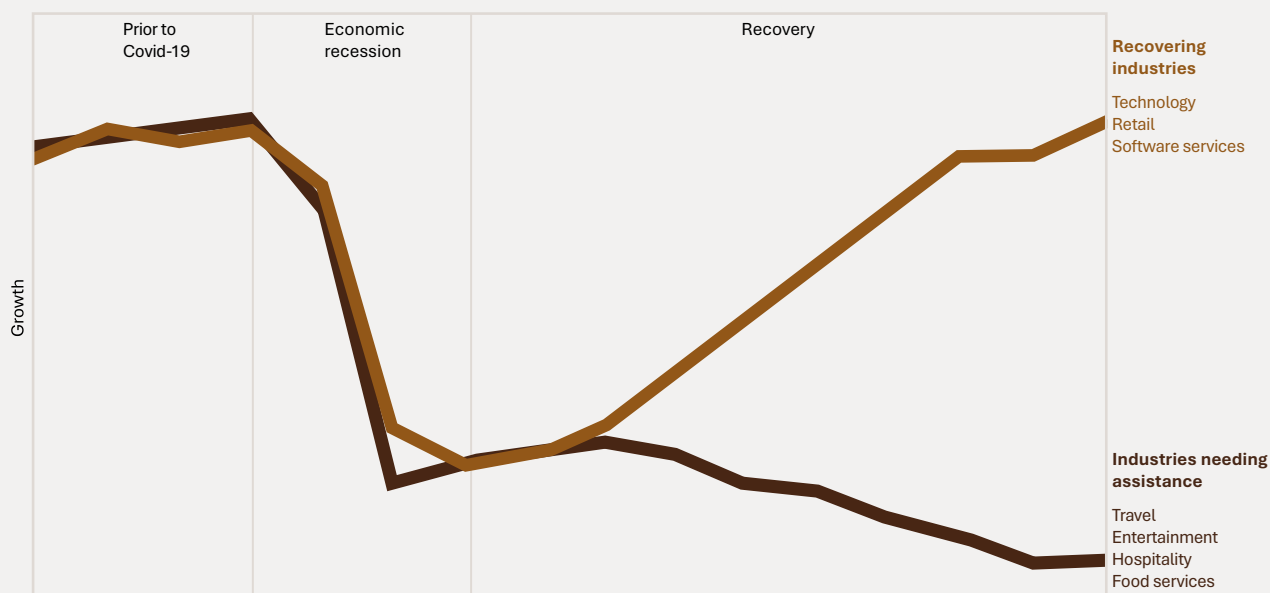
- AI has driven one of the most powerful and concentrated investment booms in history. A handful of companies have benefited disproportionately, creating a “winner-takes-all” dynamic. While valuations appear stretched for certain companies, AI could represent a structural shift that reshapes the global economy for years to come. However, AI is not a rising tide lifting all boats. We must separate true beneficiaries from those riding temporary enthusiasm, and balance short-term market concentration with the long-term transformation AI may bring across industries.
- The continued rise of passive investing has concentrated more capital into a small number of mega-cap companies. This trend shows no sign of slowing and has magnified the gap between market-cap-weighted indices – which are at record highs – and equal-weighted indices, which have been largely flat. This market concentration has, especially over the past two years, challenged active investments. On the other hand, the wave of passive and highly concentrated indices can distort capital allocation, leaving more room for skilled active investors to add value.

A narrow K-shaped economy and equity market driven by a few

Today, the global economy (especially the US economy) and equity markets are a story of two tales with narrow growth drivers and an extreme concentration of equity returns. The real economy is experiencing genuine demand, but it is narrow – centred on AI and sovereignty-linked projects, not broad-based private consumption and investments, as depicted in figure 1 on the next page. According to Rothschild and Redburn, spending on AI investments accounted for all of the GDP growth in the US in the first half of 2025.

AI-related activities power ahead on secular drivers while non-AI activities are weighed down by uncertainty, tariffs, lower immigration and somewhat restrictive Fed rates. The gap between

Figure 1

K-shaped Recovery

Source: US Chamber of commerce, October 2025

US GDP growth and growth ex-investment in IT equipment and software was a historically wide 140bp in the 1H of 2025. This K-shaped activity contributes to divergent consumption patterns where higher-income consumers with exposure to AI-related stock price gains remain strong, while lower-middle-income consumers experience weaker real labour income growth. As AI assets soared, those owners became disproportionate beneficiaries of the stimulative monetary and fiscal policies, leading high-income households to account for a disproportionate share of spending, making current private consumption reliant on the asset-rich. The cost of living has risen approximately 30% since Covid, which has led to broad de-premiumization and substitution to more affordable consumer products. On the other hand, affluent households continue to prioritise travel, healthcare, and leisure, while demand for autos,

apparel, and durables remains weak. As a result, consumption is increasingly defined by the top 10%, while the rest of the economy trades down or cuts back.

Within capital spending, hyperscaler datacenters (AWS, Microsoft Azure, Google Cloud Platform) are the dominant incremental growth engine, cascading into demand for electricity, switchgear, and construction, like building materials. This surge is amplified by FOMO among hyperscalers, each fearful of being left behind. According to McKinsey (April 2025), 60% of spending will go to chips and other hardware, 25% to power, electrical equipment and cooling and 15% to construction. Despite massive spending, monetisation remains limited, creating a capex supercycle without proven returns. Oppositely, general corporate willingness to invest in broad-based capital investment has been

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depressed by the successive tariff rounds, increasing cost uncertainty, fearing retaliation risks, and the erosion of globalisation's efficiency dividend.

Crosscurrents influence equity markets at all-time highs with headwinds from tariffs and a slowing US labour market, but tailwinds from expected Fed cuts and enthusiasm around AI. The “Magnificent Seven” continues to dominate, representing approximately 30% of the S&P 500 market cap and the vast majority of 2025's return. Some of this market concentration is supported by earnings, as Technology and Communications is the current key driver of market EPS growth. Industrials, Staples, Utilities, and Real Estate remain flat or negative. Just as household consumption relies on the affluent, equity markets are highly dependent on hyperscaler capex and the execution of the mega-cap companies.

A key factor for the equity market outlook is the continued funding of the AI investments. In the short term, lower interest rates will help

sentiment, and we see the beginning of vendor financing with Nvidia, investing in OpenAI. Vendor financing is, longer-term, a red flag, and we still need a successful monetisation of AI, to secure a sustainable return on investments.

Investment reflections on the challenges of narrow markets

The concentrated and narrow equity market, where short-termism dominates, has made it difficult for most long-term active managers to outperform the benchmarks. In 2025, about 75% of active managers have underperformed the global benchmark. In the US, year-to-date, five stocks have contributed to almost half of the market return. Without at least a market weight in these stocks, it has been very difficult to outperform.

As the saying goes, “Financial markets are there to humble as many as possible.” In recent periods, this humility has been particularly difficult,





and we are acutely aware that despite the exceptional market conditions that have not lived up to our clients' relative performance expectations, especially in the past couple of years. Periods of underperformance are never easy, but they fuel our determination to reflect deeply and continue to learn and evolve.

Quality is the foundation of our long-term philosophy, and we define quality by three traits: a permanent right to win, a repeatable and durable business model and industry dynamics that support sustainable growth. However, our ability to adapt to the new and changing circumstances is key to long-term investment success. Therefore, we are continuously fine-tuning and making thoughtful adjustments to our process while staying true to our long-standing framework of core beliefs.

Managing relative and shorter-term risks

Our risk objective has always been to manage portfolios with an absolute mindset, aiming to deliver strong long-term returns while keeping volatility in line with the index. However, for the first time in decades, a handful of individual companies now carry index weights larger than entire countries. This concentration creates new "tail risks" if left unaddressed. In response, we will embed relative risk assessments earlier into our investment research and apply our research process to those whose sheer market cap could influence relative outcomes.

We are maintaining our long-term horizon, while at the same time more actively considering shorter-term relative risks. In addition, we are sharpening our focus on companies that combine enduring quality with positive change – businesses where

fundamentals are strengthening and the overall landscape is becoming more favourable.

Our DNA, our bedrock of beliefs, remains intact. High-conviction stock-picking with a longer-term investment mindset remains our guiding principle.

A K-shaped market structure also creates opportunities

Five years ago, with negative real interest rates, long-duration quality assets were in high demand and highly valued. In hindsight, we underestimated the rise of interest rates, and while our companies delivered strong earnings growth, valuation pressures weighed on returns. Today, the picture has reversed with our high-quality portfolio companies attractively priced compared to their history and continued positioned for sustainable growth – in our view creating an attractive opportunity, when the narrow and K-shaped equity market broadens-out.

From a portfolio risk perspective, we think a stabilisation of uncertainty should be positive enabling equity market leadership to broaden-out. Also, we see several important market trends that could turn in our favour, and we believe that there are many things that can go right going forward.

We have bundled our three key areas of investment convictions into the following:

1. Convictions within AI and IT

Within IT and AI, we think investors will broaden the current focus on training of LLMs to wider leading-edge applications. The sheer size of the AI investments create significant executions risks with returns on AI capex investments still unclear and the leading AI infrastructure companies have high

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expectations embedded in their valuations. Wind of change could come to these one-directional investment bets of the past two years. We foresee that semiconductor capex will broaden out, favouring more leading-edge technology to the benefit of companies like ASML, TSMC and Hoya. Competition between incumbent internet platforms like Microsoft, Google and Amazon and new entrants like OpenAI will increase, although we expect the incumbent companies to be relative winners. We see the Chinese players as well-positioned to benefit from monetisation of the AI investments, which is the reason we recently added Prosus (owning a large part of Tencent) to our global portfolio. Also, key data owners should benefit from monetisation as AI technology reaches practical usage.

2. Financial convictions

Western banks, together with AI and defence, have been the star performers over the past 12 months. We have a strong preference for emerging markets financials that are supported by rising penetration of financial services and a positive demographic backdrop, whereas we fear the value trade of Western banks will fade, especially as credit risks could reemerge. Also, asset light financials like exchanges and payment gatekeepers like Visa are long-term well positioned.

3. Revival of the tangible economy

Besides AI investments, we see several structural capital investments trends as countries need to upgrade industrial infrastructure to support increased defence production and the core industrial infrastructure, which is a prerequisite for a strong defence capacity. This includes upgrading of electrical infrastructure, investments to support reshoring and automation. We also believe that solar and wind will be a part of these solutions. More than 20% of the investments in the global strategy are related to this infrastructure theme.



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Wind of change could come to the one-directional investment bets of the past two years.



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Defense in a Multipolar World

The transition from a unipolar to a multipolar world order – exemplified by simultaneous conflicts in Ukraine and the Middle East – underscores the strategic imperative of abundant energy and large manufacturing capacities.

NATO's commitment to 5% of GDP on defence, including 1.5% for critical infrastructure, will catalyse two investment super-cycles: core defence spending growing at roughly 12% CAGR to 2030, and electrification markets expanding at 10–30% CAGR alongside the expansion of manufacturing capacities in the West.

Robust investment in power generation, transmission, distribution, and end-user electrification will be indispensable to support advanced manufacturing. The multipolar contest will extend to industrial capacity: without energy, there can be no manufacturing – and without manufacturing, there can be no defence.



The conflicts in Ukraine and the Middle East are not isolated regional disputes but reflect the transition from a unipolar to a multipolar world order. These wars are not separate conflicts but strategic confrontations between China, Russia, Iran, and North Korea on one side and Western nations on the other, aimed at systematically challenging Western influence and the post-World War II liberal order. Conflicts like those in Ukraine, Iran, and Yemen are simply the most visible signs of this larger global struggle, featuring multiple pressure points intended to deplete Western military and economic resources¹.

This insight has implications for analysing the defence challenge and the investment opportunities in the coming decades.

The coalition against the West

The emerging axis of China, Russia, Iran, and North Korea represents a coordinated effort to challenge the post-WW2 liberal order. This coalition is forcing expensive military deployments across multiple geographies simultaneously, thereby depleting stockpiles of critical weapons and munitions and compelling the United States to stretch its resources thin instead of focusing on its main strategic adversary, China.

For example, the recent Israeli strike on Iran and Iran's counteroffensive have significantly drained US and allied missile supplies. The US reportedly used up 14% of its global THAAD missile stockpile within just days of fighting. The U.S. has supplied about a third of its inventory of certain missiles (Javelin, Stinger, GMLRS) to Ukraine. Patriot interceptor supplies were reportedly down to 25% of the minimum needed levels. The reality for Europe is that the opponent is not only an aggressive Russia but also the emerging axis behind Russia with its industrial might. This happens at the exact time when the US retrenches from the World

Scene because of historical overreach. To face this challenge, Europe's response must be both a rebuilding of defence capabilities and an overall overhaul of its societal economic structures. Europe needs to realise that without abundant energy, there can be no manufacturing, and without manufacturing, there can be no defence.

Europe faces an unprecedented strategic challenge that transcends traditional "guns versus butter" economics. NATO's 2025 Hague Summit required Allies to lift defence spending to 5% of GDP, of which 1.5 percentage point is ring-fenced for civil preparedness and critical infrastructure, not least energy grids.

This insight explores why traditional thinking fails to address the necessary structural changes for 21st-century security. It explains why a 1.5 percentage point allocation is indispensable, how Europe's energy policy and power networks currently fail, and what lessons China's long-term "electrostate" strategy offers.

Defence companies challenged by indebted states and a monopsony market structure

Since war erupted in Ukraine, defence stocks have performed strongly, see figure 1. And no doubt, NATO's increase in defence spending will lead to solid top-line growth for well-positioned companies over the next decade. However, the industry setup is a monopsony, with governments the only major buyers. Coupled with political sensitivity, this restricts profit margins and returns on capital. While firms like Rheinmetall have benefited from favourable terms, those advantages may not last as attention shifts from initial excitement to upcoming debates about public finances and the sustainability of earnings growth for defence companies.

The market anticipates significant margin expansion from companies like Rheinmetall, with

¹ According to several reputable reports from July 2025, Chinese Foreign Minister Wang Yi told the EU's top diplomat, Kaja Kallas, that Beijing "cannot allow Russia to lose the war in Ukraine." Wang Yi explained that a Russian defeat would be strategically unacceptable for China because it might enable the United States to fully shift its focus toward containing China in East Asia.

Figure 1

MSCI Europe Aerospace & defence Index in USD

Source: Bloomberg, 9th September 2025

defence EBIT margins projected in the 15–20% range, well above pre-war levels of 8–10%. For comparison, U.S. peers such as Lockheed, Raytheon, and Northrop operate under stricter government oversight and typically achieve 10–13% EBIT margins². Maintaining current levels may depend on political tolerance for large defence profits amid rising fiscal pressure points.

As we explore below, modern warfare is changing rapidly by the day. Drones and domes already play a more significant role, which could reshape industry structure and competitive dynamics. Many of the best-positioned companies technologically

are currently private, and while it's important not to underestimate incumbent defence firms, it's worth noting that many private companies are better positioned for the “defence of the future”. This includes themes like Drones, AI, and Autonomous Systems (Helsing, Quantum Systems, ARX Robotics) and Missile Systems (MBDA, Cambridge Aerospace), see figure 1.

From narrow thinking to systems thinking

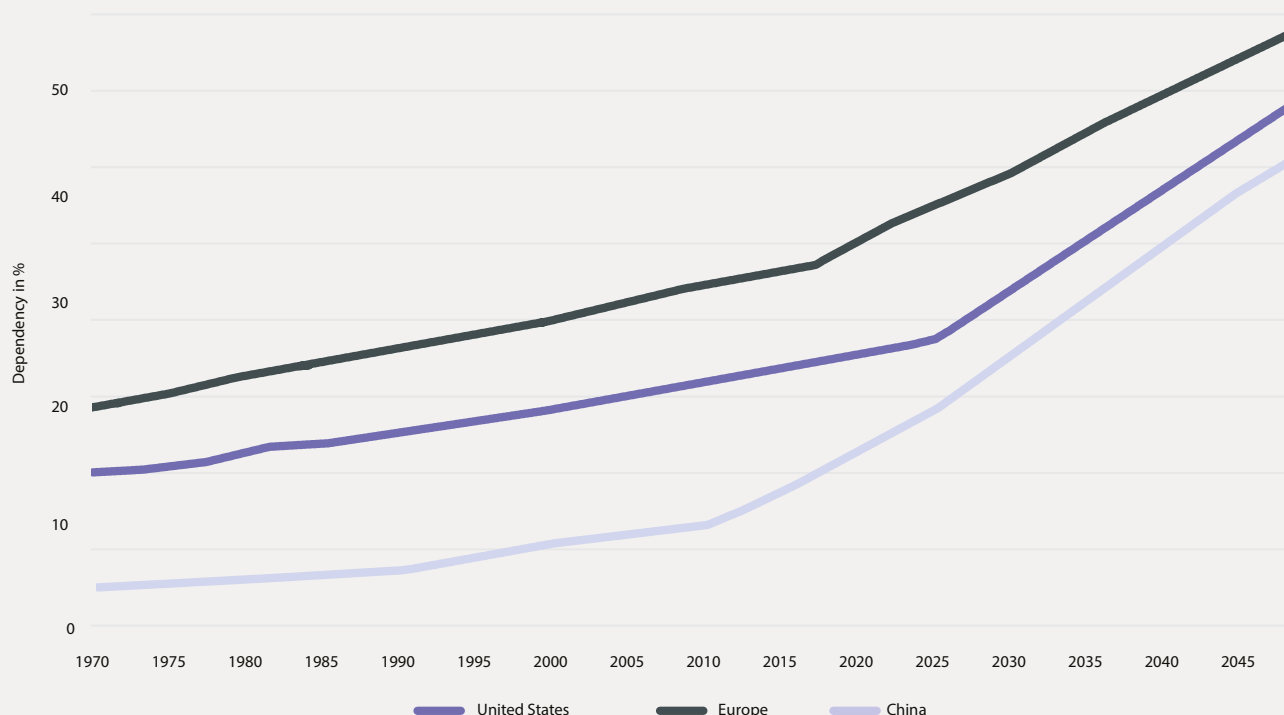
Thinking narrowly about defence spending may cause investors to overlook the most crucial thematic investment opportunity created by this

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Fewer workers must support growing defence budgets and expanding elderly populations, while the tax base contracts precisely when fiscal demands rise.

Figure 2

The old age dependency: US, Europe, and China



Source: Perplexity, September 2025

new multipolar world: the need for the West to refocus on energy and manufacturing if we want to regain relevance in the future.

The convergence of multiple crises – aging societies, fiscal constraints, technological disruption, and geopolitical challenges – creates systemic vulnerabilities that cannot be addressed through conventional policy responses.

These correlated risks expose the fundamental weakness in Western defence industrial capacity. Ukraine's daily consumption of 7,000 artillery shells, at least four times higher than Europe's total production, along with Ukraine's and Russia's goal

of producing 4 million drones annually, highlights the considerable gap between modern warfare demands and Western manufacturing capacity.

European demographics present a crisis that makes traditional fiscal models outdated. By 2050, 22 out of 27 EU countries will face shrinking working-age populations, while the old-age dependency ratio in Europe is expected to rise sharply, see figure 2. The EU's old age dependency ratio will reach about 56.7% by 2050. This indicates there will be fewer than two working-age adults (20–64) for every person aged 65 or older – more than doubling the ratio from 2001 levels and a significant increase from today's roughly 34–35%.

This creates a vicious cycle: fewer workers must support growing defence budgets and expanding elderly populations, while the tax base contracts precisely when fiscal demands rise. How will European politicians maintain welfare states, dramatically increase defence spending, and avoid politically toxic tax increases?

Fiscal sustainability is a prerequisite for a sustainable and strong military. If the fiscal house is not in order, it will undermine any nation's ability to defend itself in the long term.

France serves as an example: As of July 2025, France's defence budget was still only 2% of GDP. President Macron had previously announced plans to increase France's defence budget by €6.5 billion over two years, to reach €64 billion by the end of 2027. However, this increase still falls short of the new NATO targets, as the annual military budget would need to reach approximately €100 billion to get to 3% of GDP by 2030. Ongoing political instability and upcoming government changes could further hinder France's ability to fulfil these NATO spending commitments.

First-order political thinking centres on immediate trade-offs: cutting pensions to fund missiles, introducing wealth taxes to buy tanks, or issuing debt to delay the crisis. First-order investment thinking emphasises direct defence-related investments but overlooks the larger issues of demographics, debt, and technological acceleration. It also ignores the core challenge—the industrial capacity to turn spending into capability no longer exists at a competitive scale in the West. This exposes the core weakness in Western defence planning: the belief that technological advantage can replace industrial capacity. Removing Russia from Eastern Ukraine would be impossible without a level of Western military commitment that has proven politically unattainable. The same limitations would be even more severe in a Pacific conflict with China.

Modern warfare and private sector incentives

Modern warfare has fundamentally shifted from the industrial paradigms that shaped Cold War thinking. For example, drones account for 60-70% of kills and equipment damage in Ukraine.



This represents a manufacturing challenge fundamentally different from traditional weapons production. It requires consumer electronics supply chains, software integration, and rapid iteration cycles that favour software-driven production systems over legacy defence contractors. These consumer electronics supply chains are mainly located in China. China has restricted the export of electronic components, especially drone parts, to Ukraine (as well as to the U.S. and broader Western markets). These controls cover finished drones and critical components such as motors, batteries, cameras, flight controllers, and navigation units. Meanwhile, Chinese exports of these materials to Russia have continued³.

Traditional defence procurement – designed for decade-long development cycles and specialised

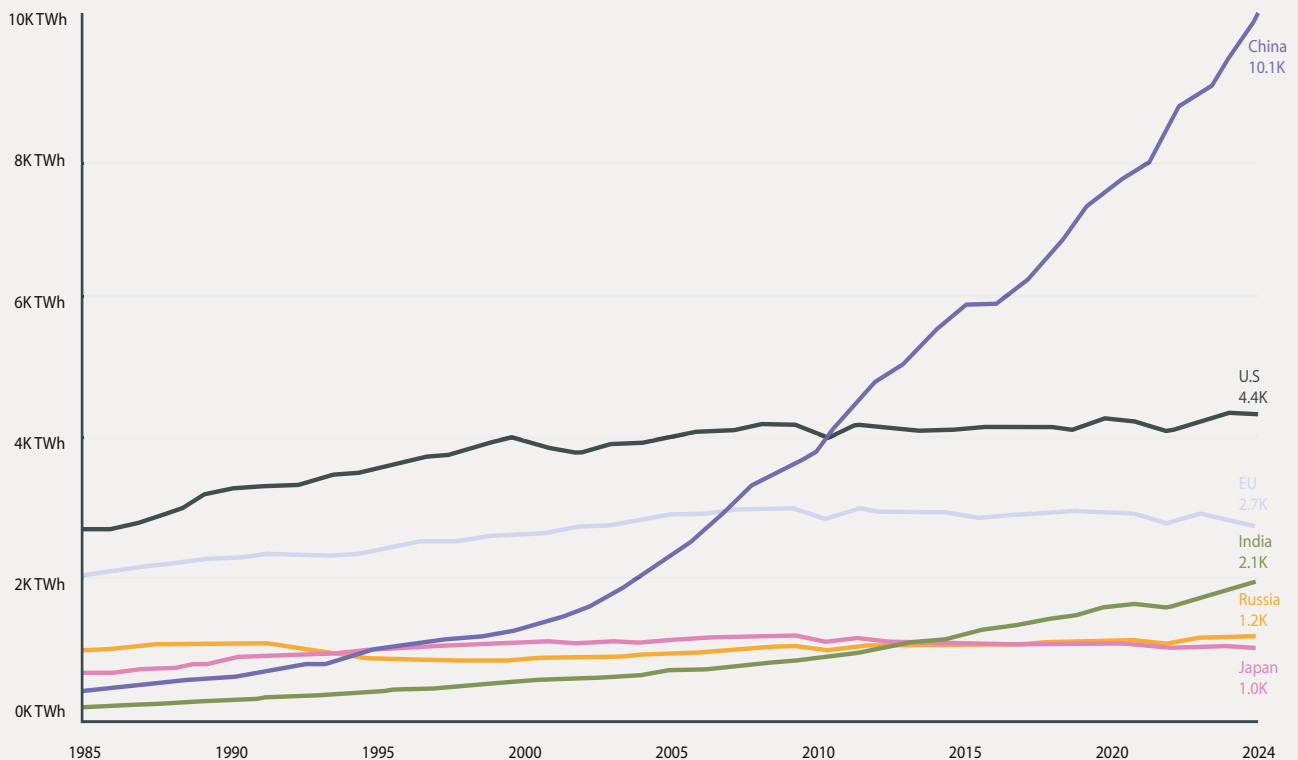
production facilities – cannot adapt to the pace of technological change driving modern conflict. The natural conclusion is that a traditional focus on defence alone, financed by an almost bankrupt public sector, cannot solve the task itself, and massive investments by private enterprise are required if Europe wants to tip the scales of geopolitics in its favour.

This requires incentives. As the Draghi Report on competitiveness outlines, EU bureaucracy has stifled European entrepreneurship and needs to be changed. Lowering capital taxes should encourage risk-taking more. Otherwise, capital will not to the degree needed support the upgrade of European manufacturing and electrification, which is essential for a stronger European defence system.

3 https://www.perplexity.ai/search/when-does-social-security-in-t-h3_oRTRq1vn.24kzAAg#3

Figure 3

Top power producing countries



Source: Our World in Data, September 2025

Modern infrastructure & China's electrostate

China's strategic advantage lies not only in its current military capabilities but also in its massive industrial capacity and its systematic electrification of its economy. While the West focused on financialisation and services, China built the world's first "electro state" – with electricity comprising 28% of total energy use compared to the global average of 20%. Today, China consumes as much electricity as the EU, the US, India, and Russia combined, see figure 3.

China's electrification strategy aims to reduce its vulnerability to imported energy, particularly oil shipped from the Middle East – a logistical choke-point that the US could potentially block in a crisis. Recognising this risk, China decades ago embarked on a large-scale transition to substitute domestically sourced energy for imported fossil fuels. Europe has done precisely the opposite over the last few decades, shutting down domestic fossil and

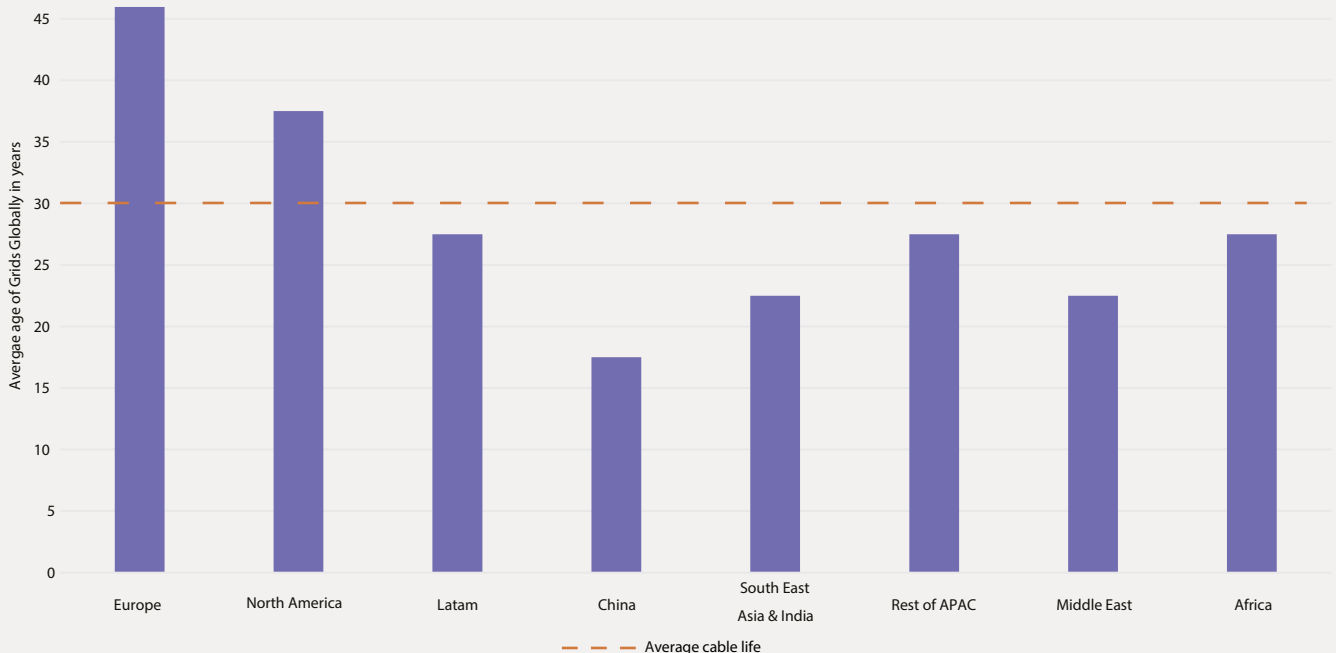
nuclear production, while low-density renewables⁴ have been ineffective in covering for the shortfall of legacy production. So, while China's import dependency on energy has been halved from 26% to 13% 2000-2024, Europe has over the same time seen a moderate increase in import dependence to 58%, see figure 4. This huge strategic vulnerability will take decades to correct, but it also opens up very large investment opportunities.

China leads the world in new installations of coal, nuclear, hydro, wind, and solar power and has made significant investments in grid modernisation and the electrification of transport and industry. This push for electrification allows the country to supply more of its economy with domestic energy sources and has supported manufacturing dominance

4 [The-struggle-to-achieve-net-zero-emissions.pdf](#)

Figure 4

Grids in Europe and North America are older than the average cable life



Source: Bernstein, June 2025

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As autonomous systems become a larger part of modern defence technology, blurring the lines between consumer electronics and military applications, China’s firm control of these “dual-use” supply chains becomes a strategic issue.

across critical technologies. Europe needs to copy this to rebuild resilience.

China’s 42 ultra-high-voltage (UHV) transmission lines – each capable of carrying 5-12GW over 2,000+ kilometres with minimal losses – represent more than energy infrastructure. They constitute a manufacturing advantage that enables the rapid addition of power generation and industrial production scaling anywhere within China’s territory.

Europe’s and America’s old grids, constrained by conventional high-voltage systems limited to 1-3GW capacity over shorter distances, cannot support the industrial loads required for modern manufacturing at Chinese scales. This infrastructural gap translates directly into limitations in manufacturing. The current scramble to get power connections for AI Datacentres in Europe and the US is a case in point.

China’s transportation electrification strategy demonstrates the most visible aspect of its energy independence drive. The country now produces over 60% of all electric vehicles globally, accounting for more than half of global EV sales. This dominance extends beyond manufacturing to the entire EV ecosystem, creating a self-reinforcing cycle of energy independence and powerful competitive moats in multiple industries.

China’s High-Speed Rail (HSR) network, covering over 45,000 kilometres and representing two-thirds of the world’s high-speed rail capacity, operates entirely on electricity, reducing dependence on imported petroleum products for mobility. The strategic complementarity between China’s high-speed rail (HSR) network, rising EV demand, decreasing air transportation demand, and lowered energy import dependency demonstrates sophisticated long-

term policy planning. HSR lessens the need for long-distance travel by car and air transportation. Although China’s population is four times larger than the US, domestic air travel levels are similar.

China’s oil demand contracted 0.6% in 2024 while electricity consumption grew 6.7%.

China’s dominance in electric vehicles (EVs) and battery technology has significant implications for other fast-growing fields such as drones and humanoid robots. The technological advancements, cost reductions, and established supply chains for EVs—especially lithium-ion batteries, electric motors, controllers, and related electronics—are the foundational components that drive cutting-edge robotics and autonomous systems.

China now controls a large portion of the supply chains for essential technologies used in drones and humanoid robots, as well as key raw materials. This makes Western efforts to develop or expand autonomous systems highly reliant on Chinese suppliers. In practical terms, anyone in the West working on advanced drones or robots will probably need Chinese-made batteries, sensors, or power electronics — or face higher costs and limited capabilities if they attempt to get supplies from non-Chinese sources.

Furthermore, as autonomous systems become a larger part of modern defence technology, blurring the lines between consumer electronics and military applications, China’s firm control of these “dual-use” supply chains becomes a strategic issue. Efforts in the US to slow the growth of EV technology, such as the hostility shown by the Trump administration⁵, risk weakening the broader American ability to compete in autonomous systems and robotics,

5 Exclusive: Trump transition team plans sweeping rollback of Biden EV, emissions policies | Reuters

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The West faces a strategic challenge that goes beyond traditional fiscal policy debates and enters the realm of system transformation

both commercially and militarily. In short, without a strong domestic EV and battery industry, the US and its allies face long-term dependence on China for the next stage of defence innovation.

European Governments should understand that spending more on conventional defence procurement will not generate competitive military capabilities if the underlying industrial ecosystem cannot deliver modern systems at scale and speed.

The Ukrainian conflict demonstrates this. Commercial drones adapted for military use, produced in consumer electronics factories, prove more tactically relevant than expensive traditional systems designed in the 1990s. Rather than simply increasing defence spending percentages, Western governments must acknowledge that security in the 21st century requires manufacturing competitiveness across electrified industrial systems.

This includes diversifying supply chains away from potential adversaries and building technological sovereignty in critical sectors while managing the fiscal constraints imposed by ageing societies and debt burdens.

The West faces a strategic challenge that goes beyond traditional fiscal policy debates and enters the realm of system transformation. China's systematic electrification over three decades has created geopolitical advantages that cannot be overcome through increased defence spending alone.

Broader investment opportunities

EU NATO members spent €327 billion, or approximately 1.9% of GDP, on defence in 2024. Assuming 3% nominal growth of GDP and 3.5% spending on

defence by 2035, this translates into total defence spending of EUR 830 billion or a CAGR of 9%. The 1.5% allocation to broader defence-related areas will lead to a new stream of investment opportunities, an area we think the market does not discount today. This portion is dedicated to defense related infrastructure, resilience of energy grids, distribution networks, critical infrastructure protection (including cybersecurity), and military mobility corridors.

Europe, like the US, has old transmission and distribution networks, see figure 4. These networks have become the main bottleneck for increasing renewable capacities in Europe. Additionally, modern defence relies heavily on energy, especially electricity. From data-driven command systems to energy-hungry AI data centres, military effectiveness today depends on reliable and cyber-secure power. Recognising this, NATO now requires 1.5% explicitly allocated to civil preparedness and critical infrastructure, including energy grids. According to Bernstein, spending on power grids in the four major European countries has increased by about 80% over the past five years. Europe spends roughly €63 billion on power grids annually, with around €28 billion for electricity transmission and €35 billion for distribution. Before the new 1.5% allocation, Bernstein expected this to more than double by 2030.

The April 2025 Iberian blackout demonstrated how high renewable penetration without robust grids can lead to blackouts. The 2023 EU Action Plan for Grids and the upcoming European Grids Package aim to streamline permitting, encourage proactive investment, and fund €584 billion in upgrades this decade. In September 2025, Goldman Sachs⁶ analysed the longer-term supply-demand outlook for European electricity markets and concluded that the Regulated Asset Base (RAB) of grid companies will compound

at 15% for the foreseeable future. This will benefit regulated utilities like SSE, Eon, and Iberdrola.

However, electrification offers compelling investment opportunities across many different sectors. In Power Generation, renewable sources attract the most investment. An increasing recognition that renewables alone cannot ensure stable and affordable electricity will boost demand for gas generation and the deployment of nuclear power in the long term. Transmission and distribution infrastructure are expected to expand significantly, benefiting market leaders such as ABB, Siemens Energy, and Schneider Electric, which dominate transformer and grid infrastructure markets, as well as leading global cable companies Nexans, Prysmian, and NKT. These companies provide comprehensive solutions ranging from high-voltage transmission to distribution automation systems.

Siemens Smart Infrastructure focuses on the “grid edge”— where electricity connects with end users in

buildings and industrial facilities. Siemens is a major player in low-voltage switchgear and is also active in high-growth sectors like data centres and energy storage.

Likewise, Schneider Electric is also a key player in Data centres. The company furthermore focuses on energy management and the digital transformation of electrical infrastructure. As manufacturing expands in Europe, the industrial electrical equipment sector, working with building automation, factory electrification, and smart grid integration, will experience growth.

Total power investments will have to rise to 3000 bn € over the coming decade to cope with historical underinvestment and expected growth in demand.

This leads to the conclusion that Europe’s new defence focus leads to two simultaneous investment “super-cycles”. Core defence procurement must

Figure 5

Total addressable markets (bn EUR)

End Market Growth	2024	2030	CAGR
EU NATO Core defence (3.0% GDP 2030)	326	650	12%
Defence-related infrastructure (1.5%)	0	325	New steam
Transmission & Distribution, global	333	730	14%
of which the EU	63	140	14%
Electricity Capacity for GenAI	31	155	31%
Low, medium, voltage incl. Data Centre	169	264	8%

Source: CWW, Bernstein, Redburn Atlantic, September 2025

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Total power investments will have to rise to 3000 bn € over the coming decade to cope with historical underinvestment and expected growth in demand.

more than double, increasing at roughly 12% CAGR to 2030, while spending on electricity infrastructure, storage, mobility, cyber security, and power electronics is expanding at 10–30% CAGR, depending on segment. Figure 5 on page 10 shows that electrification markets will outpace this historic re-armament, opening total addressable markets (TAMs) measured in the trillions and offering equity investors broader, faster-growing runways than traditional defence primes.

Conclusion

EU Europe's pledge to spend 5% of GDP on security is historic. Europe's transition from austerity-driven policies to infrastructure and defence-led growth represents a fundamental paradigm shift with profound implications for economic performance and equity markets. The combination of substantial fiscal multipliers, strategic industrial transformation, and attractive valuations positions European markets

to potentially rival US returns for the first time since the 2000s.

The cyclical benefits of this spending transformation, supported by fiscal multipliers and the structural advantages of strategic autonomy and technological spillovers, give reasons to believe that Europe is entering a new era of growth potential. Utilities like SSE, Iberdrola, RWE, and Eon, TSOs, electrical capital goods companies like Schneider and Siemens, and cable and transformer vendors are well placed to deliver attractive returns with growth matching defence majors. As this investment cycle matures and European industrial capacity expands, the region's equity markets appear well-positioned to capitalise on this transformation, while supporting the continent's long-term economic competitiveness and security independence.

Global Equities Ex. Tobacco – Quarterly comment

Global equity markets advanced as investor sentiment balanced optimism around looser monetary policy in the US and resilient corporate earnings against concerns about slowing growth, policy missteps, and external shocks. The optimism around AI continued to fuel markets, particularly in the US with strength in the AI-related stocks.

In the quarter, the strategy rose 2.5% (AUD), while MSCI AC World Index returned 6.4%. A large part of the quarter's underperformance can be contributed to the portfolio's lack of exposure to Western banks, while having exposure to emerging market banks and financial service companies. Also, the underweight within IT detracted as the AI rally continued. Among the positive investments were Alphabet, TSMC and ASML, while HDFC, Novo Nordisk and Nestlé detracted the most. Novo Nordisk once again lowered sales and profit outlook as the competition from compounders continues to pressure sales in the US. The company announced a new CEO and a cost-cutting program. We continue to view the company's structural opportunities favorably.

Investment strategy and portfolio changes

While keeping our structural and long-term perspective, we have made several portfolio changes considering the rapidly changing business trends

and the political and geopolitical environment. Consequently, we have sold **Atlas Copco**, **Adobe**, **Carrier**, and reduced the position in Visa, while adding **Prosus**, **Uber** and **Schneider Electric**. Prosus is a unique vehicle for accessing global consumer internet growth, owning 23% of Tencent, one of the world's most valuable consumer internet platforms. Tencent has a strong legacy gaming portfolio, but also AI-supported growth in its ads business, similarly to what we have previously seen at Meta. Uber is the leading platform for ride-hailing and food delivery, holding a 30% share of the global ride-hailing market and 80% of the US market. The company has built a powerful network where more riders attract more drivers, creating a virtuous cycle. Uber's food delivery business is also experiencing a positive network effect, and the company is expanding into new areas like groceries and healthcare. Uber is now on a journey from being a cash-burning startup to becoming a profitable growth compounder. Schneider Electric is a leading supplier of electrical equipment with a strong distribution network and broad product portfolio. The company has undergone a significant transformation over the past decade, making it ideally positioned to participate in an electrification super cycle driven by the energy transition and move towards next-generation technology infrastructure, particularly data storage.



Global Equities

[Read more about the strategy ↗](#)



Global Equities Ex. Tobacco

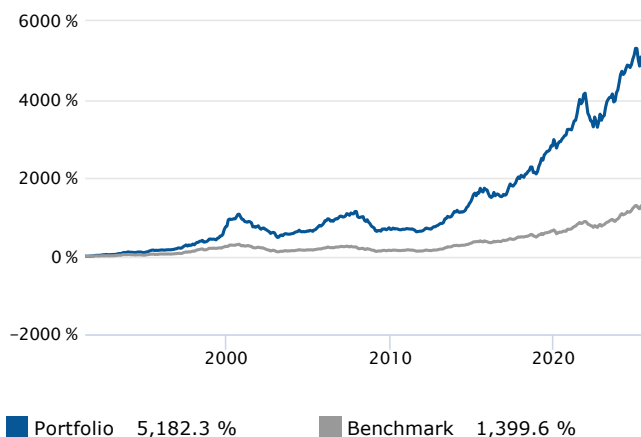
GROSS OF FEES IN AUD AS OF 30 SEPTEMBER 2025

INVESTMENT PHILOSOPHY

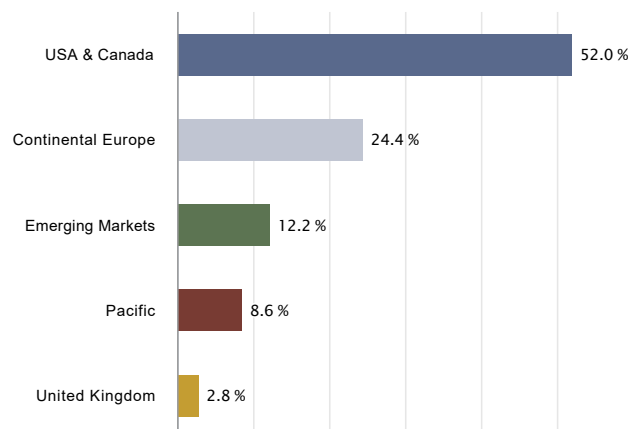
Name	C WorldWide Global Equities Ex Tobacco
Inception date	31 May 1991
Benchmark	MSCI All Country World incl. net dividends
Read more	www.cworldwide.com

The strategy aims to achieve long-term capital growth exceeding the return of the market with a moderate risk profile as measured by standard deviation. The portfolio consists of 25-30 high conviction global large cap stock picks that ensure a sufficiently high-risk diversification. There are no geographic or sector restrictions in the strategy. This fact sheet has been prepared by C WorldWide Asset Management Fondsmæglersekskab A/S and is for information purposes only.

INVESTMENT RETURNS



GEOGRAPHIC DIVERSIFICATION



RETURN & RISK

	Q3 YTD		1 Y	3 Y	5 Y	10 Y	Lifetime
Portfolio (gross) (%)	2.5	1.0	7.5	15.9	10.7	11.8	12.2
Benchmark (%)	6.4	10.6	22.8	21.9	15.3	12.6	8.2
Relative performance (%)	-3.9	-9.7	-15.3	-5.9	-4.6	-0.8	4.0

			3 Y	5 Y	10 Y	Lifetime
Std. dev. portfolio (%)			9.5	11.1	10.9	13.4
Std. dev. benchmark (%)			9.5	10.3	10.5	11.9
Beta			0.9	1.0	0.9	1.0

Periods longer than 1 year are shown annualized

TOP 10 HOLDINGS

	Share in %
Microsoft	6.0
Alphabet	5.9
HDFC Bank	5.5
Amazon.com	5.3
TSMC	5.1
Visa	4.8
Siemens	4.5
Parker Hannifin	4.3
Prosus	3.9
AIA Group	3.9

CONTRIBUTION (3 MONTHS ROLLING)

Top/Bottom 5	Contribution (%)	Return (%)
▲ Alphabet	1.6	35.9
▲ TSMC	0.8	16.9
▲ Thermo Fisher Scientific	0.6	18.4
▲ ASML	0.6	21.3
▲ Hoya	0.4	15.9
▼ Novo Nordisk	-0.7	-21.5
▼ HDFC Bank	-0.6	-9.0
▼ Visa	-0.3	-4.7
▼ Nestlé	-0.3	-8.1
▼ Bank Central Asia	-0.3	-15.3

All figures are based on past performance. Past performance is not a reliable indicator of future performance. The currency is AUD. The return may increase or decrease as a result of currency fluctuations. The figures are based on a composite. The figures are gross of investment management fee and performance fee, if any. Other fees, incurred by the investor, such as custodian fee and transaction costs, are not included.

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