

Q3 2026



Quarterly Commentary.

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Introduction.

Thank you for taking the time to read our Q3 commentary. This quarter, global markets were once again overshadowed by the ongoing conflict in the Middle East and multi-decade high bond yields. As we move further into the year, we remain focused on our long-term objectives, reacting to change as it happens, but always with a view to achieving the goals that really matter to our investors and their financial plans.

Our CIO letter this quarter explores some of the reasons why investors are prone to explaining away what's right in front of them, especially given that sometimes the biggest risks are the ones hiding in plain sight. We consider what this means for the current market backdrop and how we're positioning portfolios to stay focused on delivering consistent returns for our investors.

In our Astute Observations section, we look into how tokens are priced, why the economics behind them may be less straightforward than the headline growth in AI usage suggests, and what that could mean for the companies leading the race.

Our regular Astute Perspective shows our current conviction views, while Astute Positioning covers how those views translate into the portfolios and what changes we have made in the past three months.

Putting the financial plan at the heart of our process means our investment philosophy is built intentionally to deliver on your long-term objectives, providing a truly integrated approach between advice and investments.

As always, we take a long-term approach to investing our clients' assets, but success is a journey, not a destination, and the short-term views expressed herein are aimed at managing risk and making your investment journey as smooth as possible. By taking a risk-adjusted approach to your investments, we aim to deliver reliable growth, in line with our stated risk profiles, and provide you and your financial planner with the consistency and security to plan for your long-term financial future.

Thank you for your continued support. If you have any further questions or require any additional information, please do not hesitate to contact your usual financial planner.



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Hiding in plain sight...

Sometimes the most obvious thing in the world can be the hardest thing to see. Humans are drawn to looking for patterns or hidden meanings, and so sometimes can miss the risk that is hiding in plain sight. I was reminded of this watching the new season of *The Traitors*. If you're one of the handful of people in the country who still hasn't watched it (I'm a late convert myself), this season opened with one of the "traitors" revealing their secret.

On the face of it, a huge blunder. From the audience perspective, given all the facts, it's obvious. Immediate damage control is needed to avoid elimination from the game. From the contestant's perspective, however, it's different. It's too obvious; there are thousands of reasons for his actions; he can't be a traitor. It takes discipline to keep looking at the obvious while trying to rationalise it away. Sometimes we just don't want to see what's right in front of us.

This same dynamic operates constantly in investing. Markets do mostly go up, and so there is a willingness to explain away any information that might challenge that belief. What would normally be considered a warning flag might get ignored. In the late 1990s, firms like Global Crossing spent hundreds of billions of dollars on internet infrastructure, which bankrupted them when demand fell short of expectations. Equipment giants like Lucent began using their own balance sheet to encourage borrowing by their customers, creating circular revenue that evaporated when customer profits failed to deliver.

This year, hyperscalers are expected to spend a combined \$800bn on AI data centre infrastructure and trillions more in subsequent years. While revenue is growing rapidly for frontier AI labs, actual profit still remains elusive. If data centres are Token factories, the cost of cutting-edge manufacture still outpaces the ballooning revenues generated through sales (see *Astute Observations* for more). Much of this expenditure is also funded through circular financing. The Bank of International Settlements estimates that between 2021 and 2025, half of all incoming investment into AI companies originated from another AI firm. Almost half of all those deals involved a direct supply chain relationship.

None of this means we are in for a dot-com bubble burst. Most of this spending remains real cash from quasi-monopolies like Microsoft, Meta and Google, although increasingly the money is borrowed. There is, and will be, humongous amounts of money directed towards AI, but if you simply ignore the elephant in the room, you're liable to get stamped on.

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Talking of getting crushed brings me neatly to bonds, which have suffered a bit of a trampling of late. We have been bullish in this area, and this year we have been wrong. Yields have pushed up for a whole host of reasons (Iran, Inflation and Politics) and bond prices have come down. However, the distinction between these investments and speculative ones is that we know we'll get our money back. We also get paid around 5% a year to hold them while we wait to get that money.

I started this piece by essentially highlighting that good decision-making relies on focus and discipline. My focus is and always will be on delivering consistent returns above inflation for our investors. Right now that means underweighting the more speculative assets and locking in long-term, above-inflation returns in bonds. In the short term, I'm willing to look silly in this view, but I am confident that over the time horizons that matter, this strategy will safely deliver more for our investors along their planning journey.

For the same reasons, we're also buying insurance against the areas where we have to take speculative risk, like our Growth fund. We're essentially taking a bit off the top to protect a lot at the bottom, which to us translates to a greater probability of success for a greater number of our clients. Of course, if AI is a technological miracle, then I suspect most of our investors' financial plans are on track anyway.

Finally, before my next letter, two major political events will pass: The UK budget and US midterms. The Budget should ideally be a non-event focused on managing the deficit down, though never underestimate a politician's ability to complicate things. My more learned colleagues will be posting updates on planning implications across our social media, so look out for those.

In the US, a "blue wave" for Democrats looks increasingly likely, but even if they secure Congress, they will hit a brick wall. President Trump retains veto authority, meaning neither side will have the majorities required to pass radical changes. Expect some fireworks around the election, but politically speaking, the markets should see it fizzle out quickly.



S Osborne, PhD CFA
Chief Investment Officer

Astute Observations.

A Token Gesture...

With the adoption of any new technology, there is an inevitable deluge of new terminology, and the Artificial Intelligence revolution is no different. AI has spawned its own lexicon, and we are all becoming more familiar with terms like LLM (Large Language Model), prompt (the written entry directing the model) and the subject of this short piece, “Token”. Tokens have become the basic unit of measurement within the AI industry, representing the data users type (inputs) and text generated by the AI in response (outputs). A gross simplification is that 100 tokens are around 75 words. These tokens, usually measured in millions, can also be held relative to things like power consumption and price in order to benchmark performance and adoption more generally.

Put very simply, the total amount of tokens being produced is growing exponentially as adoption of AI disseminates across the globe. More and more people are using the technology every day. For the companies selling this as a service, however, like Anthropic or OpenAI, price matters as much as volume. Of course, not all tokens are made equal, and the world’s best-performing or “frontier” models demand a significant premium. The pace of development means the capabilities of these models are unmatched, and thus pricing power remains with the owner of that model. In these spaces, the margins per token (i.e. the cost charged versus the cost) can be as high as 70%.

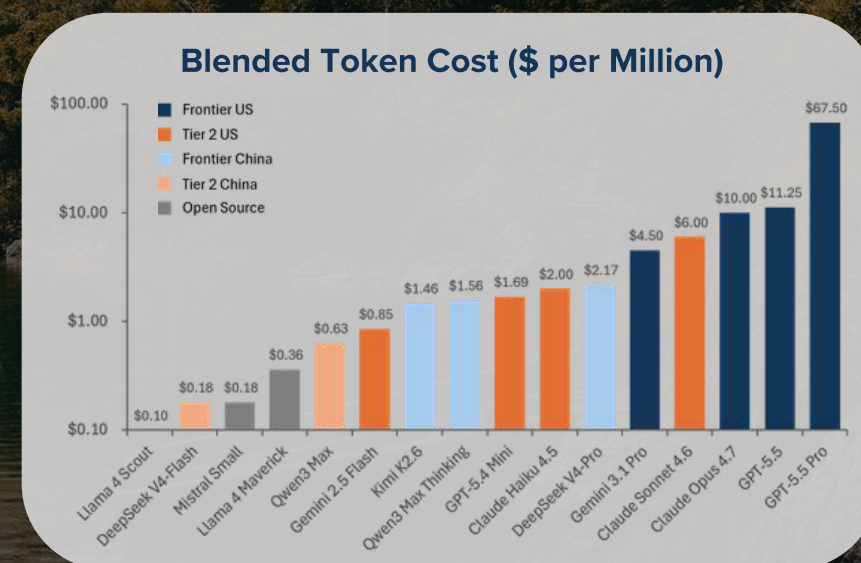
As the cutting edge of LLMs become more intelligent however, there remains a trailing field of other models racing to catch up. Often using a current frontier model as a teacher, these student models essentially shortcut the training process and achieve something not quite as good but with significantly lower development cost. This process, combined with the older models from the frontier labs themselves, creates an industry underneath where price competition is brutal.

The chart to the right shows the dollar per million token cost of a range of models from earlier in the year. The true frontier models charge a premium while competitors below them become increasingly cheaper. Chinese frontier labs still trail US peers in terms of performance but can also operate at much thinner margins. Meanwhile, “tier 2” type models are often previous iterations of the frontier which have now lost their pricing power. Finally, the open source models are essentially free to use, with costs limited only by the physical inputs, essentially electricity use. Outside of the top, there is an incredibly steep fall-off in pricing power. Tokens essentially become a commodity, and as such, the lowest-cost producer will win, and margins regress towards the cost of production.

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The implications of this commoditisation will depend on how efficiently users can tap into this market. If every single query can be efficiently directed to the lowest-cost model capable of completing the task, then adoption can continue to rise, but total spend will rise much more slowly. This has obvious consequences for the frontier labs who are relying on a world where they dominate demand through technological superiority.

Maintaining that lead also requires immense investment, which is why, despite ballooning revenue, companies like Anthropic still lose money when investment is subtracted. A cynic might suggest that the recent pivot towards regulation and oversight might be one way in which these companies can maintain their privileged market position, but without having to continuously outspend cheaper competitors.



Sources: Global Tech Research (“Tokens are the new oil”, April 2026). Blended token cost assumes 3/1 split between output and input costs. Pricing as at April 2026.



Astute Perspective.

Asset Class Views

A key pillar of our investment process is driven by our asset class views, something which we keep under review. The scale below shows how we currently feel about each asset class, which is reflected in our underlying investments.



Alternatives



Fixed Income

Sovereign Bonds



Corporate Bonds



High-yield bonds



EM Debt



Equities

UK



Europe



Asia & Emerging



Japan



USA



N. America - Underweight

Trump is causing wobbles, but markets press on
US Dollar decline is the main issue for overseas investors
Further uncertainty likely as Midterm nears

UK - Neutral

Finding some support as an alternative to the US
Prefer smaller companies with growth opportunities
Short-term volatility likely as budget nears

Europe - Neutral/Overweight

German Fiscal Break could see major stimulus
Politics are pushing for a closer union, but major challenges remain
Iran War raises concerns over long-term growth

Japan - Neutral/Overweight

Return of inflation is a positive sign
Good source of untapped value, but currency is volatile
New PM is positive for equities

Asia and Emerging - Overweight

Pause on US-China War is a temporary measure
Global trade has adapted well to tariffs
Weak Dollar has been positive

Astute Positioning.

During the third quarter of 2026, global markets were once again overshadowed by the ongoing conflict in the Middle East and multi-decade high bond yields. Given the persistent inflationary pressures, major central banks maintained a hawkish monetary stance, with interest rate increases from the US Federal Reserve and the European Central Bank and mounting pressure on the Bank of England to follow suit. Despite fixed income markets experiencing significant drawdowns, equity markets remained buoyed by AI-driven earnings momentum, but grew increasingly vulnerable with rising real borrowing costs and mounting credit risks brewing under the surface.

At the start of July, we initiated a rotation in our core US equity allocation by swapping the L&G US Equity tracker for the Xtrackers S&P 500 ETF. This transition allowed us to access a cheaper core index wrapper which tracked the S&P 500 specifically to avoid the inclusion of SpaceX in broader equity indices. While we wouldn't usually initiate such a niche single-stock decision like this, the trade was framed against a market backdrop where AI momentum was simply pushing the valuations around these mega-cap tech names and IPOs to very speculative levels. We see no reason to expose ourselves to this given the ease of alternative solutions.

In mid-July, we deployed cash to purchase another range accrual structured product. This product yields a 13% annual coupon accrued daily, provided the 10-year UK Gilt yield remains below 5.35%, allowing us to top up our overall allocation following mark-to-market price declines as yields have climbed higher over the quarter. The rationale here is in line with our previous thinking and attempts to capitalise on the upward pressure in yields, with the knowledge that the underlying economy is simply not strong enough to sustainably maintain this level and thus the Bank of England should react accordingly.

Towards the end of July, we trimmed our Emerging Market equity holdings and combined the proceeds with cash to purchase a new Emerging Market debt manager. PIMCO is a blended, unconstrained strategy with a track record of defensiveness in volatile periods. Despite the bias to dampen volatility, the fund still delivers consistent alpha which compounds to strong outperformance. This is an excellent core holding for the asset class whilst also allowing us to enhance overall yield and actively step away from heavy index concentration risks in EM equities, where market-cap weighting has left equity indices increasingly dominated by a narrow set of mega-cap stocks.

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In late September, we rotated our US equity positioning slightly by selling down our S&P 500 Min Vol ETF to purchase the core Xtrackers S&P 500, moving away from factor-based defensive equity to broader US exposure, given that the protection is better served from our put spread. Although we have bought downside protection in our Growth fund, our base case isn't necessarily that markets will decline sharply from here, but we think adjusting to the sharp overshoots in global yield curves and increasingly stretched equity valuations with a capped-loss product is a useful utilisation of the tools available to us.

Looking ahead, we maintain a very cautious stance across global markets. Valuations across major asset classes remain topy, with equity market leadership heavily concentrated and vulnerable to sudden shifts in sentiment. While consensus market attention remains predominantly focused on whether AI could spark the next recession or market crash, we remain tentative to a far more critical risk growing within the credit market, as sustained high real interest rates and massive corporate debt issuance are already causing issues in private credit. With so much uncertainty still in the market, we remain focused on diversification and using the tools available to us as institutional investors to continue to defend and protect the portfolios from the noise.

Fund Activity

New Purchase

Xtrackers S&P 500 ETF	Con / Bal / Gro
Structured Products	Con / Bal / Gro
PIMCO GIS Emerging Markets Opps	Con / Bal / Gro

Top Up

M&G Global Emerging Markets	Bal / Gro
Polar Capital Emerging Markets Stars	Bal / Gro
Xtrackers S&P 500 ETF	Bal / Gro

Trim

iShares Core MSCI EM IMI ETF	Bal / Gro
M&G Global Emerging Markets	Con
Polar Capital Emerging Market Stars	Con

Sold

L&G US Equity ETF	Con / Bal / Gro
iShares Core MSCI EM IMI ETF	Bal / Gro
iShares Edge S&P 500 Min Vol ETF	Bal / Gro

Con = Conservative, Bal = Balanced, Gro = Growth

Sources: Astute Investment Management as at 30/09/2026. Past performance is not a reliable indicator of future results.

VT Astute Conservative.

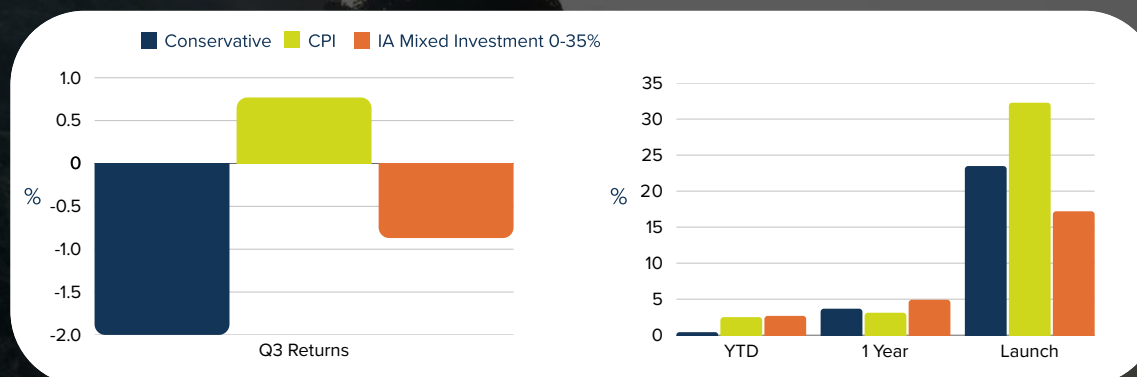
The Conservative fund delivered a return of -2.49% this quarter, lagging behind both its CPI benchmark and the IA Sector. The primary headwinds causing this underperformance came from our UK sovereign bonds and our structured products, which are linked to UK and US sovereign bonds, that declined in price as global bond yields moved higher. This was only partially offset by positive contributions from Japan and our credit managers.

Fixed income markets experienced heightened volatility over the quarter as global yield curves steepened and bond yields pushed higher across major markets. Persistent inflation concerns fueled by geopolitical friction in the Middle East and elevated energy prices led major central banks, including the Federal Reserve and ECB, to maintain hawkish policy stances. Heavy government debt supply alongside technical position liquidations by fixed income managers placed additional upward pressure.

The fund's top-performing holdings were led by US equity trackers Invesco S&P 500 ETF GBP Hedged (+2.21%) and Xtrackers S&P 500 ETF (+2.16%), which gained from strong corporate profits and massive AI capital expenditure commitments. Lazard Japanese Strategic Equity (+9.91%) contributed strongly as the Bank of Japan gradually normalised monetary policy. Additionally, L&G UK Mid Cap Index (+8.78%) benefited from resilient earnings and M&A, while 3i Infrastructure (+4.37%) added positively, backed by strong demand and the profitable sale of its stake in TCR.

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Performance



Asset Classes

Asset Classes	Avg Weight	Return	Contribution to Portfolio Return
Cash & Equivalents	7.54%	0.97%	+0.07%
Government	28.85%	-4.22%	-1.24%
Credit	27.59%	-1.32%	-0.39%
UK	3.47%	4.13%	+0.14%
N. America	11.96%	2.93%	+0.35%
Europe	2.87%	-1.24%	-0.05%
Japan	2.21%	7.45%	+0.16%
Asia & Emerging	3.83%	-0.38%	-0.08%
Thematic	1.02%	-4.63%	-0.04%
Alternatives	10.65%	-12.89%	-1.41%

Top Funds

Fund Name	Avg Weight	Return	Contribution to Portfolio Return
Invesco S&P 500 ETF GBP Hedged	6.36%	+2.21%	+0.23%
Lazard Japanese Strategic Equity	1.71%	+9.91%	+0.14%
Xtrackers S&P 500 ETF	2.63%	+2.16%	+0.11%
L&G UK Mid Cap Index	0.54%	+8.78%	+0.06%
3i Infrastructure	0.71%	+4.37%	+0.05%

Sources: Refinitiv Lipper for Investment Management & Astute Investment Management as at 30/09/2026. Past performance is not a reliable indicator of future results. All performance is shown net of ongoing charges. Launch data is for the period 20/07/2020 to 30/09/2026. 1-year data is for the period 30/09/2025 to 30/09/2026. Contribution to return may not sum to the total return due to rounding and averaging.

VT Astute Balanced.

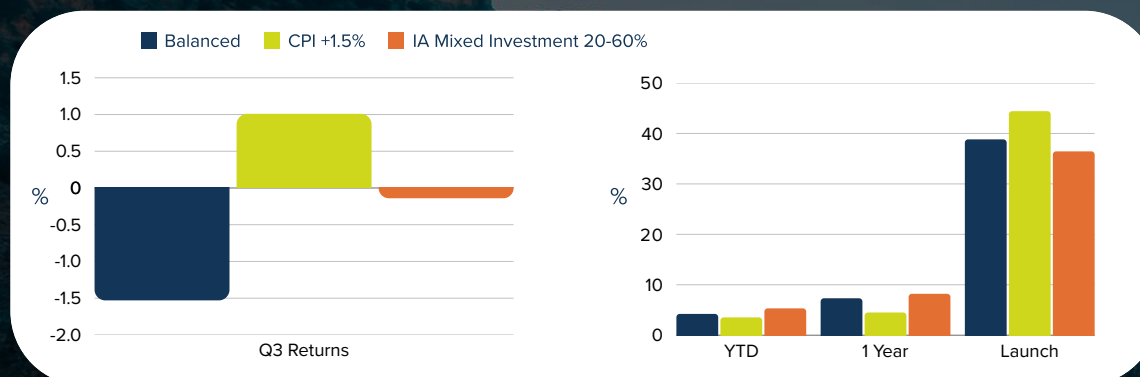
The Balanced fund posted a return of -1.53% during the quarter, trailing both its CPI benchmark and the IA Sector Average. Underperformance was mainly driven by our exposure to long-dated UK Government bonds, alongside our structured products linked to sovereigns, which fell as global bond yields rose to multi-decade highs. Performance was marginally offset by strong gains from our Japanese manager and our credit managers despite absolute losses.

The quarterly market backdrop featured a blend of rising fixed income yields and resilient equity earnings momentum. Sovereign and corporate bond markets faced pressure from central bank rate hike expectations and energy-driven inflation risks stemming from Middle East tensions. In equity markets, continuous appetite for AI infrastructure and solid corporate earnings provided support, though rising long-dated borrowing costs and market concentration posed challenges for broader risk assets.

Leading performance among underlying holdings was Lazard Japanese Strategic Equity (+9.91%), which thrived amid Japanese monetary policy normalisation. US equity trackers Invesco S&P 500 ETF GBP Hedged (+2.21%) and Xtrackers S&P 500 ETF (+2.16%) performed well on tech sector earnings strength. UK equity exposures also added positive returns, with L&G UK Mid Cap Index (+8.78%) and L&G UK Index (+1.79%) benefiting from low valuations and M&A activity.

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Performance



Asset Classes

Asset Classes	Avg Weight	Return	Contribution to Portfolio Return
Cash & Equivalents	5.40%	0.97%	+0.03%
Government	17.49%	-4.40%	-0.87%
Credit	16.04%	-1.01%	-0.25%
UK	7.35%	3.99%	+0.22%
N. America	22.93%	2.66%	+0.33%
Europe	5.36%	-0.56%	-0.09%
Japan	5.20%	8.48%	+0.43%
Asia & Emerging	8.09%	-0.84%	-0.17%
Thematic	1.54%	-4.63%	-0.06%
Alternatives	10.59%	-10.46%	-1.11%

Top Funds

Fund Name	Avg Weight	Return	Contribution to Portfolio Return
Lazard Japanese Strategic Equity	3.68%	+9.91%	+0.33%
Invesco S&P 500 ETF GBP Hedged	8.77%	+2.21%	+0.28%
Xtrackers S&P 500 ETF	6.81%	+2.16%	+0.20%
L&G UK Mid Cap Index	1.08%	+8.78%	+0.12%
L&G UK Index	2.85%	+1.79%	+0.11%

Sources: Refinitiv Lipper for Investment Management & Astute Investment Management as at 30/09/2026. Past performance is not a reliable indicator of future results. All performance is shown net of ongoing charges. Launch data is for the period 20/07/2020 to 30/09/2026. 1-year data is for the period 30/09/2025 to 30/09/2026. Contribution to return may not sum to the total return due to rounding and averaging.

VT Astute Growth.

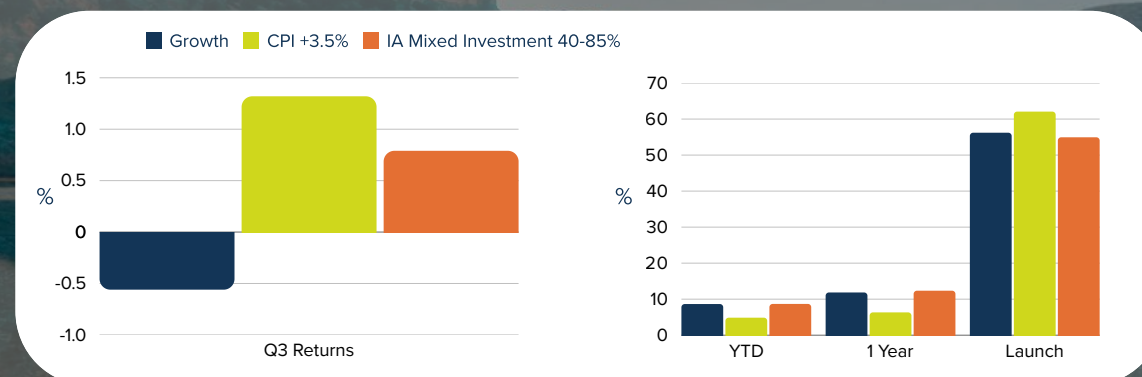
The Growth fund recorded a return of -0.56% over the quarter, slightly underperforming its CPI benchmark and the IA Sector Average. The primary driver of this underperformance was caused by our structured products linked to sovereign bonds, which fell in price as global bond yields moved higher. Weaker performance from our defensive US ETF and thematic water and waste manager also contributed, as the sectors saw a rotation away into AI-related tech names.

Global equity markets were shaped by strong corporate earnings momentum and an ongoing AI investment wave, as tech hyperscalers continued heavy capital spending on physical and digital infrastructure. While technology and semiconductor stocks drove market optimism, relentless upward pressure on long-dated bond yields and high market concentration created periodic volatility and sector rotation across global equity regions.

The top fund performers were led by Invesco S&P 500 ETF GBP Hedged (+2.21%) and Xtrackers S&P 500 ETF (+2.16%), supported by resilient US corporate profits and large-scale AI spending. Lazard Japanese Strategic Equity (+9.91%) delivered strong gains as the Bank of Japan progressed policy normalisation. L&G UK Mid Cap Index (+8.78%) added strongly, backed by resilient earnings and M&A, while M&G Global Emerging Markets (+1.19%) contributed positively, supported by smaller-cap energy and health care names.

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Performance



Asset Classes

Asset Classes	Avg Weight	Return	Contribution to Portfolio Return
Cash & Equivalents	2.04%	0.97%	+0.02%
Government	5.61%	-4.62%	-0.28%
Credit	2.20%	0.09%	-0.01%
UK	11.23%	4.74%	+0.46%
N. America	36.10%	2.83%	+0.66%
Europe	9.82%	-1.21%	-0.18%
Japan	7.26%	6.54%	+0.49%
Asia & Emerging	12.04%	-1.35%	-0.37%
Thematic	3.53%	-4.63%	-0.14%
Alternatives	10.19%	-11.86%	-1.21%

Top Funds

Fund Name	Avg Weight	Return	Contribution to Portfolio Return
Invesco S&P 500 ETF GBP Hedged	16.40%	+2.21%	+0.53%
Lazard Japanese Strategic Equity	4.76%	+9.91%	+0.42%
L&G UK Mid Cap Index	3.10%	+8.78%	+0.34%
Xtrackers S&P 500 ETF	8.26%	+2.16%	+0.23%
M&G Global Emerging Markets	4.90%	+1.19%	+0.14%

Sources: Refinitiv Lipper for Investment Management & Astute Investment Management as at 30/09/2026. Past performance is not a reliable indicator of future results. All performance is shown net of ongoing charges. Launch data is for the period 20/07/2020 to 30/09/2026. 1-year data is for the period 30/09/2025 to 30/09/2026. Contribution to return may not sum to the total return due to rounding and averaging.



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