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GLOBAL MACRO RESEARCH — THE CHALLENGES FACING UK POLITICS

BY BARONESS CAMILLA CAVENDISH

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BARONESS CAVENDISH PROVIDES HER INSIGHTFUL OBSERVATIONS ACROSS A RANGE OF IMPORTANT AND TOPICAL SUBJECTS THAT ARE LIKELY TO HELP FORM THE BACKDROP TO FORTHCOMING POLICY PLANS, INITIATIVES AND THE NEXT UK GENERAL ELECTION.

BARONESS CAMILLA CAVENDISH



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Camilla’s career has spanned both the private and public sectors. She was Head of the Prime Minister’s Downing Street Policy Unit under David Cameron and has been a Non-Executive Director of the NHS regulator CQC and CEO of a pioneering public-private regeneration partnership. In the 2020 pandemic Camilla became a temporary adviser to the Secretary of State for Health and authored a set of recommendations into social care reform. She sits in the House of Lords as a crossbench peer and on the Advisory Committee of Phoenix Insights for Better Longer Lives. She is Patron of Frontline, which puts talented graduates into social work.

Camilla started her career at McKinsey & Co and also worked for the CEO of Pearson PLC. She is currently a strategy adviser to a number of companies.

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EXECUTIVE SUMMARY

Life after Brexit

- The widespread disenchantment highlighted by Brexit has not gone away
- Following years of insularity, the UK begins to look outwardly again
- Prime Minister Sunak seeks to re-establish the UK’s reputation with global allies
- An improving international standing cannot mask domestic challenges

Both major UK parties face similar issues

- The major parties have issues of identity to overcome to attract and cement long-lasting support
- Public perception of some politicians’ behaviour risks tainting the reputations of all
- Following the 2008 financial crisis, a lot of people saw their wages just stagnate. However, some in the financial sector may have appeared to continue as normal. The same could be said after the arrival of COVID
- Gaps between richer and poorer, and younger and older in the UK need to be addressed

Policy consistency is key while security increases in importance

- Direction and guidance for the economy appears ever-changing
- Security could be the foundation on which a range of policies are advanced in the immediate future

The next general election – realities informing policy

- The outcome of the next general election may be far from certain as current policy has an eye to securing undecided voters

There are difficult challenges for either victor

- Recovery from the pandemic has been slower in the UK than in other countries
- Declining birth rates will put increasing strains on public finances
- Working age populations are already declining in many countries, increasing the demand on, or the need to create, welfare states
- Like other countries, the UK faces a burgeoning older population relative to the young. It also faces the challenge of keeping older workers in the workforce
- Longer lives may not be healthier lives, as a big gap between wealthy and deprived areas demonstrates

Positives through the gloom

- Despite the clear challenges facing any government for the UK, we should not lose sight of the benefits that our compassion and ingenuity can bring

LIFE AFTER BREXIT

- The widespread disenchantment highlighted by Brexit has not gone away
- Following years of insularity, the UK begins to look outwardly again
- Prime Minister Sunak seeks to re-establish the UK's reputation with global allies
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BREXIT'S EFFECTS ARE STILL BEING FELT

Many people felt that the outcome of the Brexit referendum would be close and that regardless of the eventual result there would be plenty of people who felt things weren't working for them. People in some areas of the country, notably the industrial North, felt they were not seeing benefits from globalisation and mass immigration had helped to mask the problems of long-term worklessness. Many people came out to vote in the referendum who had not voted for a very long time, because they felt they had been let down by politics. Some of those issues have not yet been addressed sufficiently, presenting an ongoing challenge to all politicians.

BRITAIN EMERGES FROM ITS SHELL

Rishi Sunak's meeting with Emmanuel Macron in Paris recently, coming after the deal for Northern Ireland with the European Commission, was the first Anglo-French summit since 2018. It may be an important indication that Britain is starting to look outwards again after six years of more insular focus.

REPAIRING INTERNATIONAL REPUTATIONS

Considering the bigger picture, the resetting of relations with France is important for both sides, as is improving relations with the rest of Europe. The war in Ukraine highlights that need. The UK and France are Europe's only two significant military players. Both nations are nuclear powers, with permanent seats on the UN Security Council. Though London may be taking a stronger line on President Zelensky's definition of victory, going back to at least the 2014 borders, there is a great interest from the French side and the British side in maintaining a very strong united front against Vladimir Putin.

We may be seeing a return to technocratic, pragmatic politics. Rishi Sunak also met US President Biden and Australian Prime Minister Albanese, on the AUKUS partnership, which was created in 2021 to counter Chinese military power. The British government announced that the new fleet of submarines will be built jointly by the US and UK. From an international perspective, it appears that Britain's standing may be beginning to improve.

DOMESTIC CHALLENGES STILL ABOUND

At home, Britain still feels very brittle, enduring public sector strikes, slowing foreign investment, collapsing NHS, labour shortages, ongoing demands from many Scots who still want to break away from the Union. There are also challenges from sections within Parliament who wish to move more rapidly in the process of excising old EU law from the UK statute book. The UK has accreted up of 4,000 different laws over about 50 years. Removing them quickly or without proper scrutiny could create increased uncertainty. The chancellor proposed in the Autumn Statement a different approach, which was to target the growth areas he had outlined and try and look at legislation within each bucket.

The Conservative Party is one of the most successful parties in the history of western democracy. It is typically very English and has historically been patriotic, believing in gradual change and pragmatism. It has generally shied away from heavy bureaucracy and top-down state interference, but it may not be how it currently appears.



BOTH MAJOR UK PARTIES FACE SIMILAR ISSUES

- The major parties have issues of identity to overcome to attract and cement long-lasting support
- Public perception of some politicians' behaviour risks tainting the reputations of all
- Following the 2008 financial crisis, many people saw their wages simply stagnate. However, some in the financial sector may have appeared to continue as normal. The same could be said after the arrival of COVID
- Gaps between richer and poorer, and younger and older in the UK need to be addressed

CONSERVATIVES AND LABOUR HAVE PLENTY OF SIMILARITIES

Party membership has shrunk, which may be creating problems for both Labour and the Conservatives. In the Conservative case they're dominated by people in their sixties and seventies who own their own homes. The age effect in politics now is substantial. One of the biggest, most defining criteria on how people are going to vote is how old they are. Some YouGov analysis showed that every decade older a voter gets their chance of voting Conservative increases by 9%¹. This makes the Conservatives very reluctant to do anything to challenge the wealth of older people.

David Cameron raised the pension because he believed that older people, many of whom were living in poverty, deserved a better deal. However, the triple lock on pensions is now benefiting a large number of older people who probably don't need to be insulated to quite that extent. The average pensioner household is now becoming wealthier compared to the average working household.

The Conservatives are also reluctant to agree any kind of planning permissions for housing, so on the supply side, they are very limited in what they can do. A Labour government may have much more confidence about abolishing planning controls.

A big question is likely to be whether the electoral coalition that Boris Johnson built will still hold. He was able to bring together the so-called 'red wall' working classes with the traditional Tory 'shire strongholds'. That was an unusual coalition. The 'small boats' plan could have the power to marry the two again, but there are few other issues like that. The farmers may also be deserting the Conservatives, as indicated by Liberal Democrat candidates winning the by-elections in Tiverton and North Shropshire.

Labour too is in danger of losing its roots. It is now widely seen as a metropolitan, university graduate party. It has lost some of its appeal in working-class heartlands. Nevertheless, after 12 years in which successive Conservative governments have presented themselves as new, it will be easy to say, "you have been in power for this long, and what have you achieved?". Recent reported scandals could accentuate a feeling of the current government being 'past its sell-by date'.

SCANDALS UNDERMINE CREDIBILITY BUT THE STRENGTH OF SOCIAL SOLIDARITY CAN HELP

Some recent stories, such as the Matt Hancock's WhatsApp messages and questions over Nadhim Zahawi's tax affairs, have been of the kind to make voters deeply cynical. A recent study by the ONS showed that only a quarter of the UK population now think that a high-level politician would refuse a well-paid private sector job in exchange for granting a political favour. That statistic is worse than elsewhere in the OECD. Cynicism is a danger to

¹ Source: YouGov: How Britain voted in the 2019 general election. 17 December 2019.

the workings of any democracy, whoever is in power, because it taints all politicians with the same brush. The whole concept of legal tax avoidance may be being stretched beyond any bounds of good sense. Where we used to believe in fair play as a country, there may be electoral consequences for those considered to be at fault or being seen to be taking things to extremes.

Despite this, we should remember how the nation felt in the first COVID lockdown. The NHS volunteer scheme was rapidly overwhelmed as so many people who applied to help but there wasn't enough for them to do because neighbours were already helping each other. The young were running errands for the old. The well-off started to appreciate the care workers, the delivery drivers, the people who had previously been invisible. It represented a real moment of social solidarity that could be regained. Some of the so-called 'scandals' around government have probably undermined that but regaining a sense of it could help.

DIFFERENT CRISES BUT THE SAME WINNERS AND LOSERS

The COVID pandemic only compounded the effected on many people negatively impacted by the 2008 financial crisis. The government gave unprecedented support to businesses and households. However, monetary policy made homeowners and those with a share portfolio much better off. The really wealthy largely did exceedingly well out of it. In some of the more recent strikes, particularly the ones at Amazon, this theme had started to emerge, highlighting some sense of grievance and anger, which could begin to overflow our society. It was said that Jeff Bezos could give every single UK Amazon worker a bonus of £90,000 and still be better off than he was before the pandemic. While that may depend on precisely when you measure the before and after, it does offer an insight into significant wealth disparity.

IS A NEW SOCIAL CONTRACT REQUIRED?

Now may be the time to redraw the social contract in the UK, between the old who are sitting on an increasing number of assets – which is not unique to the UK – and the young, who are increasingly unable to get on the housing ladder. They are seeing savings decline and are now becoming highly dependent on inherited wealth. Huge gaps are opening depending on whether people are lucky enough to be able to access the 'Bank of Mum and Dad', or not.

Britain also has huge gaps in output between the richest and poorest parts of the country, more than any other OECD nation on some measures. It has bigger income gaps between the North and South than East Germany and West Germany. It has an 18-year gap in healthy life expectancy depending on where you live, and that is one reason why levelling up was such a powerful slogan. However, it looks to be no more than a slogan; it ought to be a story of turning areas into net contributors.

One of the key issues with levelling up policy has been to focus on towns rather than cities. There remain plenty of good ideas around – such as building on world-class universities; creating hubs; research and development; moving more prosperity to cities; building on the Northern Powerhouse partnership that George Osborne created; and building on devolution but some of them have got a little confused.





POLICY CONSISTENCY IS KEY WHILE SECURITY INCREASES IN IMPORTANCE

- Direction and guidance for the economy appears ever-changing
- Security could be the foundation on which a range of policies are advanced in the immediate future

GROWTH – WE NEED A(NOTHER) PLAN

Almost all people would agree that the UK needs a plan for growth and there have been many. There was the government's 2017 industrial strategy, the 2021 new Plan for Growth, the 2022 plan for growth, and Keir Starmer has an ambition to make the UK the fastest growing economy in the G7. The problem is, there is little agreement on what should be in there, and time is running out.

Britain may be being squeezed. It faces a new Cold War, isolated from the rest of Europe. It needs to decide quickly where it has a comparative advantage, and then invest there. The Conservative party has traditionally been reluctant to do industrial strategy in a philosophical sense, but we may be entering a world of politics where there's not going to be a great deal of difference between the two main parties. There could be a more interventionist industrial strategy. Conservatives are more likely to cut capital spending to balance budgets, while Labour are more likely to raise taxes to balance budgets but there's going to be a general level of agreement on the theme for the next 10 years, which is going to be security.

SECURITY IS THE NEW LIGHTNING ROD

The levels of uncertainty in the world and the levels of debt make people very frightened. Cost of living makes people want economic security. The collapse of the NHS makes people want physical security. People want national security from small boats, from crime, from disorder. It was by invoking national security that US President Biden won bipartisan support for the Inflation Reduction Act. It was a deft piece of politicking when one considers how some of his predecessors had failed to get bipartisan agreement for almost anything.

The Inflation Reduction Act is something that Republicans would likely have called socialist, probably the most socialist program that America has adopted since FDR, had it not been couched in terms of national security. That could now threaten the de-industrialization of Europe because effectively with almost US\$400 billion in federal funding toward clean energy, and around almost US\$40 billion more allocated in the CHIPS Act (Creating Helpful Incentives to Produce Semiconductors and Science Act) for manufacturing incentives, it's a call for the world to invest in America.

Europe is manufacturing its response. Unfortunately, Europe never got round to creating the capital markets union that the UK pushed some time ago. This could set the tone for so much of British policy. It's a new sort of protectionism and it is a new kind of industrial policy, and the UK is going to have to find a response.

THE NEXT GENERAL ELECTION: REALITIES INFORMING POLICY

- The outcome of the next general election may be far from certain as current policy has an eye to securing undecided voters

EACH MAJOR PARTY HAS MUCH WORK TO DO

The meticulous planning of the Paris summit sought to position Rishi Sunak as someone who can deliver and who's comfortable on the international stage as the government seeks to improve its current standing in the opinion polls. Many voters may still be undecided about which party they will support, and their views may play an outsized role in British politics in the run up to the next election.

An example could be the recently unveiled policy to deter small boats crossing the Channel. It represents a sort of issue that cuts through to voters' allegiances in a way that few other issues do.

Opinion polls currently suggest a Labour victory is likely, but we should not rule out the Conservatives just squeaking over the line, or indeed a hung parliament. Keir Starmer has largely vanquished the hard Left in the party, as Neil Kinnock did. Can he now also emulate Tony Blair's success? He hasn't brought forward detailed policy yet so the Labour party may not quite be ready, but it could get there.

In 2024, the Sunak pitch will likely be, "Let me finish the job I'm delivering", while Starmer and Labour will be saying, "It's time for change" and they may not need to say any more than just, "We're not the Conservatives". Regardless, the Labour leader is likely to get pushed a lot harder quite soon on the details of policy.

There will probably also be an enormously different set of faces in Parliament. If Labour could win a landslide, there may be 200 new Labour MPs. Through a process of vetting, the party will try hard to ensure that each is committed to the broad policy plan, regardless of how unlikely their individual victories may currently appear.



THERE ARE DIFFICULT CHALLENGES FOR EITHER VICTOR

- Recovery from the pandemic has been slower in the UK than in other countries
- Declining birth rates will put increasing strains on public finances
- Working age populations are already declining in many countries, increasing the demand on, or the need to create, welfare states
- Like other countries, the UK faces a burgeoning older population relative to the young.
It also faces the challenge of keeping older workers in the workforce
- Longer lives may not be healthier lives, as a big gap between wealthy and deprived areas demonstrates

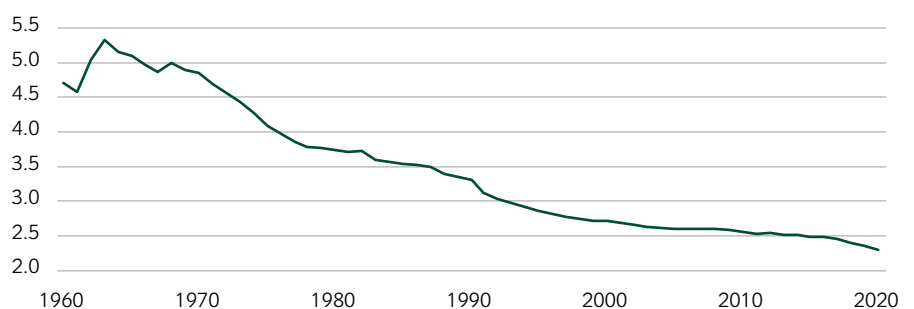
RECOVERY FROM THE PANDEMIC HAS BEEN SLOWER IN THE UK THAN IN OTHER COUNTRIES

The issues that either party are going to face in government are really going to be very similar. One is the stubborn levels of economic inactivity. The UK seems to be lagging virtually every other country now since the pandemic. While it wasn't the only country to come out of the pandemic with lower levels of economic activity, it is now the only one remaining.

WORKING AGE POPULATIONS ARE ALREADY DECLINING IN MANY COUNTRIES

Another issue is the aging population. When you sit in the Treasury, an important backdrop is the fundamental demographic shift which pushes up the bills for health, social care and pensioners. That's not only about aging, it's also about the falling birth rate, as the chart in Figure 1 shows. In almost every country outside Sub-Saharan Africa, the birth rate is plummeting.

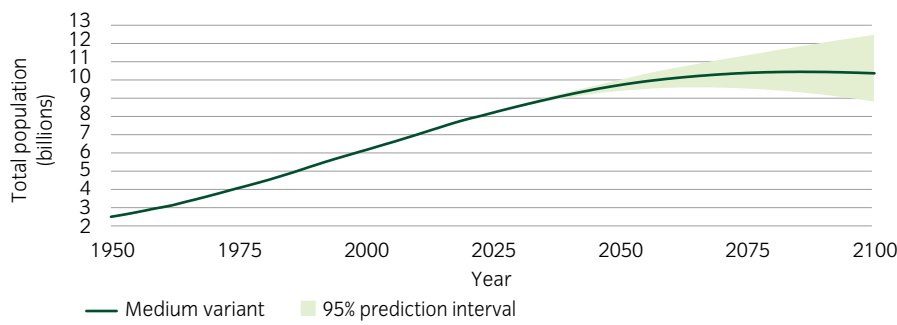
Figure 1: Declining global birth rate presents a demographic problem. (Total fertility rate, births per woman)²



² Source: The World Bank. As at 2022.

In addition, a global population peak of just above 10 billion, which is the UN median estimation, is approaching quickly, sometime in the 2080s.

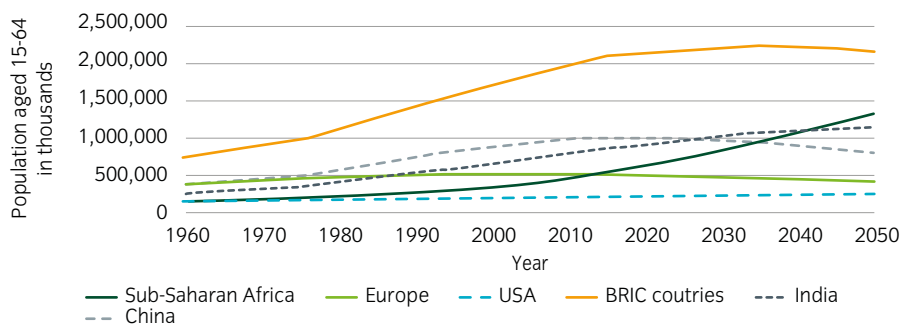
Figure 2: Global total population peak is fast approaching³



It is quite possible global population will peak earlier than in the 2080s and at a level lower than 10 billion, so the peak is approaching fast.

Demographics is no longer something that can just be dismissed to the accountants in another room, to worry about in 20 years' time. It's affecting policy now. China's population has already peaked it appears, but its working age population peaked some time ago, in the mid-2010s, as Figure 3 shows.

Figure 3: Working age population peaks differ across the world⁴



How the different parts of the world relate in terms of working-age population tells us something about where geopolitics may be going. It may inform us that the balance of power between China and America may not inevitably favour China, because China is getting old before it gets rich. It is going to have many old people who are not supporting the economy and that it is going to have to look after. China doesn't currently have a welfare state, so is going to have to create something. What impact that will have on military spending, is unclear but it may not have immediate sufficient affect to prevent an invasion of Taiwan, if that was to occur in 2025, as some commentators anticipate.

³ Source: United Nations. As at 2022.

⁴ Source: Harvard Kennedy School.

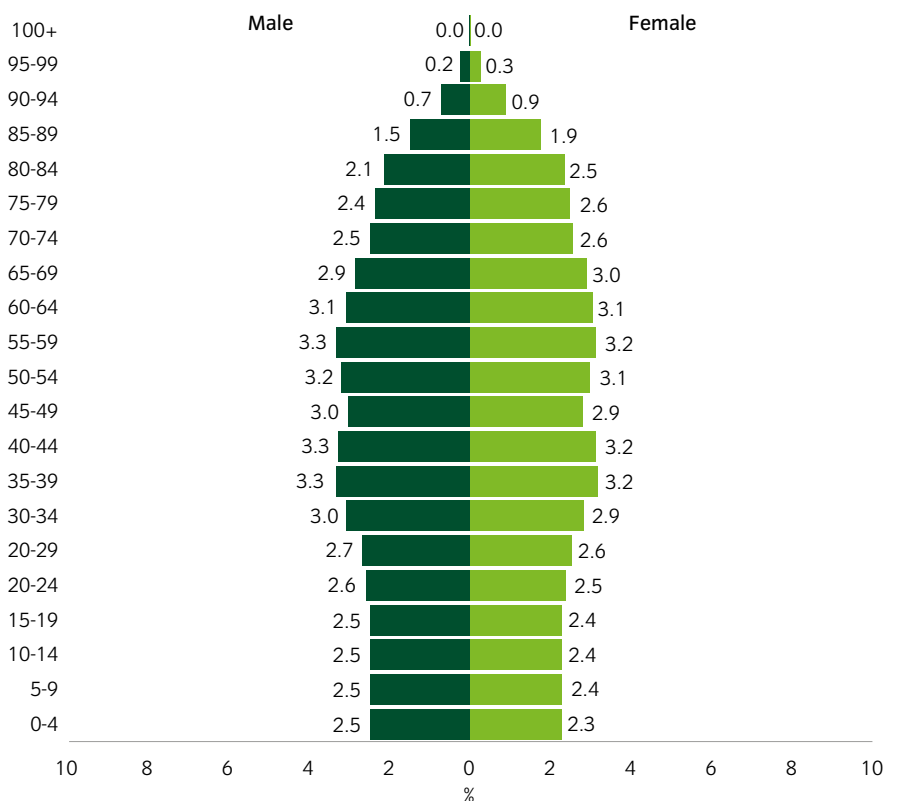


Europe, in this sense, also appears to be stagnating and has been for some time, which represents a genuine challenge to European governments. The situation is not quite as bad in the UK and the population pyramids shown in Figures 4 and 5 can help to understand that.

Figure 4: UK population pyramid – 1950⁵



Figure 5: UK population pyramid – 2050 (projected)⁶



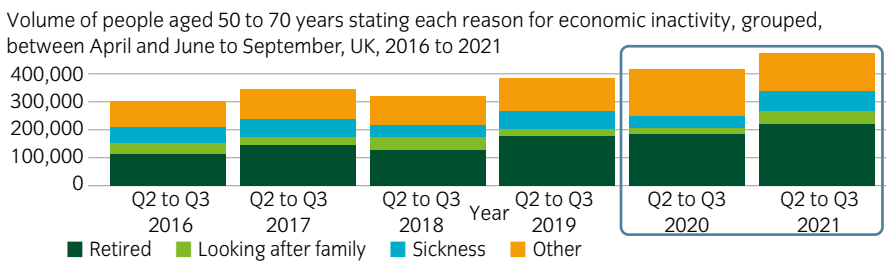
⁵ Source: PopulationPyramid.net. As at 2022.

⁶ Source: PopulationPyramid.net. As at 2022.

THE GREY RESIGNATION: THE UK FACES THE CHALLENGE OF KEEPING OLDER WORKERS IN THE WORKFORCE

Previously, the UK had far more young people supporting a smaller number of old people. It is what pay-as-you-go pensions are based on. But it is getting fewer younger people and more older people. When considering the population pyramids for Japan the bottom chart is effectively as an inverse of the top chart and the UK is heading in the same direction. The UK somewhat protected as there have been higher levels of migration in the past, but it does mean that we face really serious questions about productivity. It's why the chancellor is so focused on childcare, because he very much wants to get the middle part of that group to be as productive as possible. A big problem, of course, for the UK chancellor is not the 'great resignation', but the 'grey resignation' as shown in Figure 6.

Figure 6: The grey resignation⁷



There is a disturbing number of people who have retired long before retirement age. As the population pyramid implies, the obvious answer is to get people to work longer. However, they're actually working less long.

In France, Emmanuel Macron is facing civil unrest in trying to raise the pension from 62 to 64, which any pension trustee may think is still quite young.

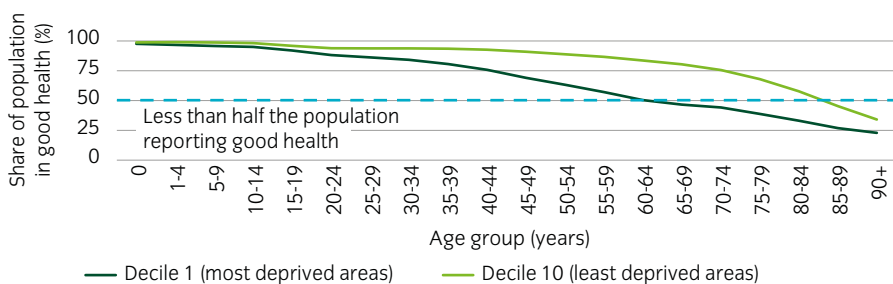
Many people in the blocks in Figure 6 are emphatic that they are never going to come back to work. Some are effectively saying, "I'm not too sick to work. Some people are, but I'm not. I'm just sick of work."

It poses a big question for our society about how we address all those 50- to 64-year-olds who are exiting work. They got better off in the pandemic and just after and they believe they can afford it. They believe they can afford to go on doing other things, often unpaid but very noble things, possibly for the next 40 years.

A LONG AND UNHEALTHY LIFE

The last challenge demographics brings, which is a very live challenge right now for the Treasury, is that the UK has a poor record on public health. There is a section of UK society, which is getting sicker and older, effectively becoming old far too early. The chart in Figure 7 shows the wide gap between the group from the most deprived areas compared to the least deprived. The pandemic exposed this. It showed the UK has real vulnerabilities.

Figure 7: Healthy life expectancy is our next big challenge⁸



⁷ Source: Office for National Statistics – Longitudinal Labour Force Survey.

⁸ Source: Office for National Statistics. General health by age, sex and deprivation – 2021.



Whole sections of our population were/are obese, which made them much more susceptible to COVID, were living in poor housing, with overcrowding meaning they couldn't socially distance adequately, and who had all sorts of chronic diseases. The country is afflicted by a whole set of long-term diseases such as type two diabetes, heart disease, and numerous other things that we have failed to get to grips with. Things such as the sugar tax on fizzy drinks, a little policy that was part of a much bigger strategy, has not been implemented. Although a small point, Conservatives are very reluctant to tell people how to live, to affect what they eat or drink. Labour is likely to be much more ready to do that, and should it form the next government, to address this challenge, which is really an economic challenge because if there are people who are too sick to work, to the UK will be unable to increase productivity.

POSITIVES THROUGH THE GLOOM

- Despite the clear challenges facing any government for the UK, we should not lose sight of the benefits that our compassion and ingenuity can bring

I'll end on an optimistic note. When I wrote a book a few years ago about the aging world following the death of my father, I set out to write a very doomy book about dementia and the aging of the world and the shrinking of the world. I worked with Larry Summers at Harvard, who had his thesis of secular stagnation. However, I ended up very optimistic because I went around the world and I found all sorts of interesting people defying age stereotypes, building communities, and doing amazing things.

I believe we need to reflect not just on the difficult nature of UK politics, but on the really positive things that have happened; on the human ingenuity which brought us COVID vaccines, which brought us extraordinary breakthroughs in genomics that may be about to bring a breakthrough in Alzheimer's, which will totally shift the demographic curve.

We need to reflect on human compassion too. I recently went around the country and interviewed some of the 120,000 families who've taken a Ukrainians, a gesture of enormous compassion and solidarity with a country that needs us. Sometimes when you read headlines about refugees, it's easy to forget that we have a deep well of compassion in this country.

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