

Schroder ISF* Global Climate Change Equity

Fund Managers: Simon Webber, Isabella Hervey-Bathurst | Fund update: February 2024

Performance overview

- Global equities were broadly higher in February, with emerging markets outperforming developed markets.
- The fund posted a positive return and outperformed the MSCI All Country World index over the month.

Drivers of fund performance

- Stock selection was positive, particularly in information technology and consumer staples. Conversely, selection in utilities and communication services detracted from gains in the month.
- By region, North America, Continental Europe, emerging markets, and Pacific ex Japan added value in the month. Allocations to Japan and the UK detracted from gains in February.
- UK semiconductor and software design company **ARM Holdings** outperformed in February on investor optimism that global demand for processors used in artificial intelligence (AI) applications will continue to accelerate.
- **Schneider Electric, Prysmian Spa, and Lowe's Companies** were among the biggest individual contributors in February. Allocations to **Chroma ATE, BMW** and **Albemarle** also added value in the month.
- Danish wind turbine supplier **Vestas Wind Systems** underperformed in February after a very strong run since September. Recent order momentum and pricing discipline suggest a profitability recovery is well underway.
- **Norsk Hydro, Daikin Industries** and **Kubota** were among the biggest individual detractors in February. **Alphabet, Iberdrola, and NextEra Energy** also detracted in the month.

Portfolio activity:

- We initiated a new position in US energy technology company **Enphase Energy** in February. The company has shown very good execution and cash flow management through a very difficult downcycle for solar. Management of inventory and receivables has been impressive, and this gives them a competitive advantage to take market share

while its competitor SolarEdge struggles with bad debts and too much inventory.

- We initiated a new position in food distribution and retail company **Jerónimo Martins** in February. The company is a very healthy business, and its valuation is below historical averages.
- We trimmed our position in **NIBE Industrier** in February. There is a lot of short-term weakness in the European heat pump market, so we have decided to reduce our holding in advance of the company announcing its 2024 outlook. Nevertheless, the long-term outlook for heat pumps is exceptionally strong, and Nibe remains a core holding to invest in this growth.

Outlook/positioning

- Policy initiatives in all major economies continue to seek to stimulate a faster transition to the net zero economy. The stimulatory effect of the US Inflation Reduction Act has only just started to be felt, China continues to be determined to maintain its lead in key climate sectors, and key EU policy initiatives are also beginning to gain traction. We continue to monitor political risks in the US around the November elections and have reduced exposure to companies we consider having binary exposure to a change in US Government.
- The cost of clean tech is getting ever more affordable, driving stronger long term demand growth for those industries. Nevertheless, there are difficult short-term adjustments as solar, battery and EVs are all now experiencing inventory downcycles after strong recent growth.
- Valuations have also become very attractive, even for some of the industry leaders who have clear competitive advantages and strong growth prospects. These are some of the most attractive valuation entry points we have seen in a decade.
- Our focus remains on companies with the strongest business models, technology, and balance sheets: all attributes we believe will be critical as tighter financial conditions steadily whittle out the weaker players over time.

Calendar year performance (%)

	Fund	Benchmark***
2023	12.3	22.2
2022	-24.4	-18.4
2021	11.2	19.3
2020	51.7	15.9
2019	25.5	27.7
2018	-10.8	-8.7
2017	30.5	22.4
2016	2.7	7.5

2015	2.0	-0.9
2014	-3.6	4.0

Source : Schroders, net of fees, NAV to NAV with net income reinvested. C Acc share class, as at 31 December 2023. ***MSCI All Country World - Net Return. The Fund does not have a target benchmark. The Fund's performance should be compared against the MSCI All Country World (Net TR) index. The comparator benchmark is only included for performance comparison purposes and does not have any bearing on how the Investment Manager invests the Fund's assets. The Fund's investment universe is expected to overlap materially with the components of the comparator benchmark.

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