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Schroder ISF* Global Climate Change Equity

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

Performance overview

- Global equities were mixed in April, with emerging markets broadly outperforming developed markets, as higher-than-expected US inflation pushed out the timeline for interest rate cuts.
- The fund posted a negative return and outperformed the MSCI All Country World index over the month.

Drivers of fund performance

- Stock selection was positive, particularly in industrials, communication services and materials. Conversely, selection in financials, real estate and consumer staples detracted in the month.
- By region, the UK, Pacific ex Japan and emerging markets detracted, while allocations to Japan, Continental Europe and North America added value in the month.
- UK semiconductor and software design company **ARM Holdings** was a weaker performer in April after a disappointing earnings report from semiconductor maker ASML led to a broad-based sell off of artificial intelligence (AI) stocks as investors feared that demand for chips for use in AI applications may not be as strong as expected.
- **Swiss Re, Weyerhaeuser,** and **Autodesk** were among the biggest individual detractors in April. **MSCI**, **Samsung SDI**, and **Lowe's Companies** also detracted in the month.
- **Alphabet** outperformed in April as the company continues to progress on its AI ambitions, with plans to incorporate generative AI capabilities across all its products. The company recently announced that it is considering charging for new premium features powered by generative AI, which would mark a notable change to its search business.
- **Prysmian, Norsk Hydro,** and **Schneider Electric** were among the biggest individual contributors in April. Allocations to **NextEra Energy**, **Shimano** and **Hitachi** also added value in the month.

Portfolio activity:

- We initiated a new position in **TopBuild** in April. The company is a strong consolidator of insulation distribution in the US. Structural drivers around building decarbonisation are good for volume growth, and a recovery in the housing market would also help cyclically eventually.
- We sold our holding in Autodesk in April. The company has been struggling for some time to generate consistent cashflow growth and conversion of revenue. Practices around cashflow accounting are now being investigated, and although the shares have de-rated, we have decided to watch from the sidelines while the investigation runs its course.

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.

For illustrative purposes only and does not constitute to any recommendations to invest in the above-mentioned security/sector/country

*Schroder International Selection Fund is referred to as Schroder ISF throughout

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. Past performance is not a guide to future performance and may not be repeated.

Risk considerations

- **Counterparty Risk**: The fund may have contractual agreements with counterparties. If a counterparty is unable to fulfil their obligations, the sum that they owe to the fund may be lost in part or in whole.
- **Capital Risk/Distribution Policy**: As the fund intends to pay dividends regardless of its performance, a dividend may represent a return of part of the amount you invested.
- **Sustainability Risk**: The fund has environmental and/or social characteristics. This means it may have limited exposure to some companies, industries or sectors and may forgo certain investment opportunities, or dispose of certain holdings, that do not align with its sustainability criteria chosen by the investment manager. The fund may invest in companies that do not reflect the beliefs and value of any particular investor.
- **Emerging Markets and Frontier Risk**: Emerging markets, and especially frontier markets, generally carry greater political, legal, counterparty, operational and liquidity risk than developed markets.
- **Derivatives Risk – Efficient Portfolio Risk**: Derivatives may be used to manage the portfolio efficiently. A derivative may not perform as expected, may create losses greater than the cost of the derivative and may result in losses to the fund.
- **Currency Risk**: The fund may lose value as a result of movements in foreign exchange rates.
- **Operational Risk**: Operational processes, including those related to the safekeeping of assets, may fail. This may result in losses to the fund.
- **Performance Risk**: Investment objectives express an intended result but there is no guarantee that such a result will be achieved. Depending on market conditions and the macro-economic environment, investment objectives may become more difficult to achieve.
- **IBOR Risk**: The transition of the financial markets away from the use of interbank offered rates (IBORs) to alternative reference rates may impact the valuation of certain holdings and disrupt liquidity in certain instruments. This may impact the investment performance of the fund.
- **Market Risk**: The value of investments can go up and down and an investor may not get back the amount initially invested.
- **Liquidity Risk**: In difficult market conditions, the fund may not be able to sell a security for full value or at all. This could affect performance and could cause the fund to defer or suspend redemptions of its shares.
- **Capital Risk/Distribution Policy**: As the fund intends to pay dividends regardless of its performance, a dividend may represent a return of part of the amount you invested.
- **Currency Risk/Hedged Share Class**: The hedging of the share class may not be fully effective and residual currency exposure may remain. The cost associated with hedging may impact performance and potential gains may be more limited than for unhedged share classes.

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