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Schroder ISF* Global Climate Change Equity

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

Performance overview

- Global equities were broadly higher in August, despite volatility at the start of the month. Developed markets outperformed emerging economies in the month.
- The fund posted a positive return and underperformed the MSCI All Country World index over the month.

Drivers of fund performance

- Stock selection was negative, particularly in industrials, consumer discretionary, and communication services. Conversely, selection in information technology, financials, and utilities added value in the month.
- By region, emerging markets and Japan contributed in August, while allocations to North America, Continental Europe, the UK, and Pacific ex Japan detracted.
- **Schneider Electric** outperformed in August following the company's continued strong performance, led by its Energy Management division, and reassuring recent results in its Industrial Automation segment. Schneider remains a global leader in the field of manufacturing power distribution and automation systems, continues to benefit from strong demand for its products and maintains a good product mix.
- **Hitachi, Swiss Re**, and **Samsung SDI** were among the biggest individual contributors in August. Allocations to **Chroma ATE**, **Ecolab** and **NextEra Energy** also added value in the month.
- Danish wind turbine supplier **Vestas Wind Systems** underperformed in August after the company reported a 3.9% decline in revenue for the second quarter and trimmed its full-year revenue guidance. We remain confident of the company's long-term growth potential given its leading position within the expanding wind energy market driven by demand for cleaner energy as well as greater need for energy independence in many markets.
- **Top Build, Alphabet,** and **Daikin Industries** were among the biggest individual detractors in August. Allocations to **NEXTracker**, **Amazon**, and **Kingspan Group** also detracted in the month.

Portfolio activity:

- We added to our position in **Hitachi** in August. The company's recent results demonstrated that the operating leverage in the grid business is coming through. The key to the investment thesis is the potential for multi-year growth in the US transmission industry, where Hitachi retains a dominant position.
- We added to our position in **ARM Holdings** in August. Although we recently reduced our position size due to valuation, given the fall in the share price the valuation now looks attractive again.
- We initiated a new position in **GE Vernova** in August. This was an opportunistic purchase for the next two to three years as demand for gas turbines is strong, driven by growing electricity demand and coal to gas switching.

Outlook/positioning

- Policy initiatives in all major economies continue to seek to stimulate a faster transition to the net zero economy. 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. EV penetration gains have also slowed in 2024, and we expect the soft patch to remain until 2025 when EU emission targets and penalties will drive another phase of EV 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

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financial conditions steadily whittle out the weaker players over time.

Past performance is not a guide to future performance and may not be repeated. The value of investments and the income from them may go down as well as up and investors may not get back the amount originally invested.

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.

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.

Important information

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Schroder Investment Management (Singapore) Ltd
138 Market Street #23-01 CapitaGreen Singapore 048946
Telephone: 1800 534 4288 Fax: +65 6536 6626
Registration No.: 199201080H