Schroders

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Schroder ISF* Global Climate Change Equity

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

Performance overview

- Global equities were broadly higher in July, with developed markets outperforming emerging economies.
- 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 consumer discretionary, utilities and real estate. Conversely, selection in financials, materials, and communication services detracted.
- By region, Japan, North America, the UK, and Continental Europe contributed in July, while allocations to emerging markets detracted.
- Danish wind turbine supplier **Vestas Wind Systems** was a stronger holding in July. 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.
- **Sumitomo Forestry**, **Top build**, and **Prysmian** were among the biggest individual contributors in July. Allocations to **Lowe's Companies**, **National Grid** and **Shimano** also added value in the month.
- UK semiconductor and software design company **ARM Holdings** underperformed in July as part of a sharp selloff in technology stocks in the month due to investor concerns that many tech stocks, particularly those related to artificial intelligence (AI) are now overvalued. We believe that ARM remains well placed to benefit from increased demand for its next generation, high-performance, low-power computing solution chips, which also carry higher licensing fees and royalty revenue.
- **Alphabet, Norsk Hydro,** and **Samsung SDI** were among the biggest individual contributors in July. Allocations to **Microsoft**, **Jeronimo Martins** and **Nvent Electric** also detracted value in the month.

Portfolio activity:

We sold our position in **MSCI** in July. Our original investment thesis has been challenged after results showed a step down in retention rates and a slowdown in organic new subscription rates.

We added to our holding in carmaker **BMW** in July. Despite the risks around the company's exposure to China, we continue to view BMW as a leader in the electric vehicle space. The current valuation is also exceptionally attractive.

We also trimmed our position in **ARM Holdings** in July, given the stock's strong performance in recent months.

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 financial conditions steadily whittle out the weaker players over time.

*Schroder International Selection Fund is referred to as Schroder ISF throughout. For illustrative purposes only and does not constitute to any recommendations to invest in the above-mentioned security/sector/country

Past performance does not predict future returns. 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.

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