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Schroder ISF* Global Climate Change Equity

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

Performance overview

- Global equities were broadly higher in May, with developed markets outperforming emerging 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 financials and materials. Conversely, selection in real estate and consumer staples detracted. Our underweight to consumer discretionary also weighed on returns.
- By region, Continental Europe and North America added value, while allocations to emerging markets, Japan and the UK detracted in the month.
- **Schneider Electric** outperformed in May following continued strong performance, led by its Energy Management division, while results in its Industrial Automation segment were not as bad as feared. Schneider remains a global leader in the field of power management and automation systems, benefitting from strong demand for electrification technologies and building decarbonisation investment.
- **First Solar**, **Prysmian** and **Swiss Re** were among the biggest individual contributors in May. Allocations to **NextEra Energy**, **Fluence Energy** and **Nvent Electric** also added value in the month.
- US home improvement chain **Lowes Companies** underperformed in May after the company reported a 4.1% fall in comparable sales in the first quarter of 2024. The company also reported a 7.6% decline in larger purchases, signalling that macro pressures have yet to abate. However, the US home improvement market is expected to improve as higher mortgage rates mean homeowners are opting to stay longer in their existing homes and make improvements to them.
- **Samsung SDI**, **Kubota**, and **National Grid** were among the biggest individual detractors in May. Allocations to **Kroger**, **BMW**, and **Union Pacific** also detracted in the month.

Portfolio activity:

- We sold our position in Johnson Controls in May, as the company has not been executing well in recent quarters and used the funds to initiate a new position in **Carrier**. Carrier has been simplifying its portfolio to become a more focussed business on refrigeration, air conditioning and heat pump end markets, which we expect to grow strongly in the years ahead.
- We sold our position in French supermarket group Carrefour in May as the company is coming under pressure from discounters in France. We added to our position in **Jeronimo Martins**, which we believe is a much better positioned company in its core market of Poland where its discounter format is highly competitive, and it is gaining market share.

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 most 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

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