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Schroder ISF* Global Climate Change Equity

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Performance overview

- Global equities were broadly lower in October amid fears over economic growth and political uncertainty.
- The fund posted a negative return and underperformed the MSCI All Country World index over the month.

Drivers of fund performance

- Stock selection was negative, particularly in consumer discretionary, information technology, and industrials. Conversely, selection in consumer staples and communication services added value. Our zero-weight allocation to healthcare also added value in the month.
- By region, North America, Japan, Continental Europe, the UK and emerging markets detracted, while allocations to Pacific ex Japan added value.
- Danish wind turbine supplier **Vestas Wind Systems** underperformed in October after the company reported a decline in revenue for the second quarter and trimmed its full-year revenue guidance. Despite recent underperformance, we believe the company is now turning a corner after a particularly challenging period marked by supply chain constraints, inflationary pressures and interest rates affecting project pricing over the past 18 months.
- **Samsung SDI, Shimano,** and **Sumitomo Forestry** were among the biggest individual detractors in October. Allocations to **First Solar**, **Giant Manufacturing**, and **Swiss Re** also detracted in the month.
- US energy services and equipment maker **GE Vernova** (GEV) outperformed in October. The US electricity grid has seen little capacity expansion in recent years and weak interstate transmission infrastructure means local increases in demand will have to be met with local production. GEV is in great position to take advantage of this demand inflection.
- **Chroma ATE, Nvent Electric,** and **Alphabet** were among the biggest individual contributors in October. Allocations to **NEXTracker**, **Longi Green Energy**, and **Owens Corning** also added value in the month.

Portfolio activity:

- We sold our position in Tesla in October. An underwhelming Robotaxi Day was not enough to reinvigorate the thesis for holding the stock and build conviction in the timing of revenues from this future growth driver, and therefore underpin the valuation.
- We added to our position in **Iberdrola** in October. The company's recent results suggested a more positive outlook than we previously expected and built conviction in the quality and strength of the business.

  We also added to our position in Chinese electric vehicle (EV) maker **BYD** in October. BYD is well positioned to benefit from the electrification of the mass segment in China. Its scale and level of integration (due to having its own battery business) provide it with a competitive advantage over both domestic and foreign peers.

Outlook/positioning

- **Financing costs are coming down, creating a tailwind for green investment**: Global interest rates, which spiked in response to inflationary pressures, have stabilised, with some central banks starting to announce reductions. Lower borrowing costs provide a much-needed boost for capital-intensive green projects, making investments in renewables, energy storage, and other climate technologies more attractive.
- **Recovery potential in key end markets, following cyclical weakness**: While markets such as EVs, heat pumps, and residential solar have experienced recent softness, driven by consumer demand slowdowns and in some cases inventory cycles and policy changes, the medium-term outlook remains bright. As macroeconomic conditions improve and inventory clears, we expect a rebound in these sectors.
- **The US election introduces policy uncertainty but may provide a clearing event**: The upcoming 2024 US presidential election could swing climate policy significantly, creating uncertainty in the near term. However, a decisive outcome should provide

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certainty, allowing participants to move off the sidelines.

- **Long-term foundations for climate investment remain strong**: Despite short-term challenges, global climate policy frameworks such as the EU Green Deal, along with widespread corporate commitments on climate, continue to support efforts to decarbonise global economies. Additionally, renewable energy remains very competitive with other energy sources, and EV prices are declining as the industry scales.
- **Valuations are attractive, supported by thorough evaluation** Valuations across many climate-related assets are at attractive levels after a period of prolonged weakness for the theme. However, investor sentiment towards the sector is subdued, presenting an opportunity for long term investors to buy into industry-leading companies at compelling entry points. Several end markets within the climate theme have now digested a significant amount of 'capital cycle' pain, resulting in significant market cap destruction and a handful of bankruptcies. Our focus remains on companies with the strongest business models, technology, and balance sheets.

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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