

# Schroder Sustainable Growth Fund (Wholesale Class)

## Portfolio Review

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The Schroder Sustainable Growth Fund returned 3.4% (post-fees) in April, taking the one year return to 11.9%. The Fund has outperformed its Strategic Asset Allocation (SAA) benchmark over the month, but underperformed over one year. Over the medium to longer term, the Fund has returned 9.4% p.a. and 6.3% p.a. over three and five years respectively.

### Largest Contributors

With equity markets rebounding sharply in April, equities were the primary contributor over the month adding 4.3% to returns, with 4% from global equities and 0.3% from Australian equities. Beyond equities, credit was a marginal positive contributor to returns as credit spreads tightened through the month. On a benchmark relative basis, the Fund's equity tilt in favour of global equities (notably the US and Japan) over Australian added to active returns over the month, as did stock selection within the Fund's global equity strategies.

### Largest Detractors

As the Australian dollar rallied sharply through April, FX was the primary detractor over the month, having a -1.0% impact on returns, with the majority of this coming from a weaker US dollar. With bond yields remaining elevated, duration had a marginal negative impact on returns over the month, detracting by -0.1%. On a benchmark relative basis, the largest detractor from active returns was stock selection within the Australian equity biodiversity strategy, as the strategy's tilt towards healthcare over other sectors hurt performance.

## Market Review

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Risk assets rebounded sharply in April, as investors looked through the continued geopolitical uncertainty stemming from the Middle East and focused on a strong US Q1 earnings season, as well as a resilient macroeconomic backdrop in the US (at least for now). While the Strait of Hormuz remains effectively closed, markets were buoyed by the news of a ceasefire between the US and Iran, with many anticipating a relatively quick resolution to the conflict after the announcement of the ceasefire. However, as negotiations dragged out, and a deal failed to be reached, energy prices rebounded, though this was not enough to spook broader equity markets, as a strong US earnings season, where over 80% of companies have beaten analyst expectations, and a rebound in investor positioning, supported broad equity market performance. The ongoing increase in AI-related capital expenditure resulted in strong performance from the US tech sector, as well as regions that are heavily linked to the thematic such as Taiwan and Korea. Despite the positive price action for equity markets in April, the fundamental issue of an energy shortage remains the most pertinent risk for now, and the longer the Strait of Hormuz remains closed, the more stagflationary the economic outcomes are. Inventory drawdowns in oil, an increase in US oil exports and a decrease in Chinese oil imports, have all helped to keep oil prices range-bound for now, but these factors that have helped to alleviate the net shortfall in oil won't last forever.

Global developed equity markets had a very strong month, with a return of 9.6% in local currency terms, while Australian equities underperformed on a relative basis with a return of 2.2% over the month. Emerging markets had a particularly strong month with a return of almost 15% in US dollar terms, being supported by strong performance in the Asian tech sector, as well as a weaker US dollar. In fixed income, bond yields moved marginally higher across most developed markets, still being impacted by the prospect of higher

inflation due to elevated oil prices. The Australian 10-year bond yield moved higher by around 0.1% over the month to finish at 5.06%, while the US 10-year bond yield moved higher by 0.05% during April to end the month at 4.37%. The most notable underperformer was Japan, where 10-year bond yields increased by almost 0.2% in April. Credit markets also rebounded, with spreads tightening across markets, with the most notable move being US high yield where spreads tightened by almost 50 basis points over the month.

In currencies, the DXY weakened by almost 2% during April, giving back its March gains. The Australian dollar was a standout performer, rallying by more than 4% against the US dollar. In commodities, there was divergent performance with Brent oil prices falling at the margin, while WTI rallied based on the front-dated futures contract. The overall Bloomberg Commodity Index was up by over 4% for the month, with nickel being one of the strongest performers.

## Portfolio Sustainability

The portfolio's weighted average carbon intensity (scope 1 and 2) is over 55% lower than that of the benchmark. The portfolio's SustainEx\* score remains positive on both an absolute (+2.2%), and benchmark relative basis (+4.2%), indicating a net positive societal impact using our proprietary ESG measure.

\*Schroders uses SustainEx™ to estimate the net impact of an investment portfolio having regard to certain sustainability measures in comparison to a product's benchmark where relevant. SustainEx scientifically combines measures of both the harm companies can do and the good they can bring to arrive at an aggregate measure of each firm's social and environmental impact, allowing investors to target their ESG investments effectively. It quantifies the extent to which companies are in credit or deficit with the societies to which they belong, and the risks they face if the costs they externalise are pushed into companies' own costs. It does this using third party data as well as Schroders own estimates and assumptions and the outcome may differ from other sustainability tools and measures.

## Individual equity holdings

***The application of the Negative Screens is only limited to directly held company-issued public securities that can be reasonably screened, such as listed Australian and International equities as well as corporate bonds. Our definition of directly held or direct investment means securities held either by Schroder Investment Management Australia Limited (SIMAL) or other Schroders Group managed funds that apply SIMAL's exclusions and where SIMAL has discretion over security selection. These Negative Screens do not apply to Indirect Investments, including other Schroders Group managed funds that do not apply the Fund's exclusions. This includes those investments in securities where SIMAL does not have discretion over security selection such as those managed by third-party investment firms, such as joint venture partners, market indices and externally managed investments such as ETFs, as well as Sustainable Finance Disclosure Regulation (SFDR) Article 8 and 9 funds that are managed by Schroders Group. The Fund's total exposure to these Article 8 and 9 funds could be approximately 20-40% of the NAV of the Fund. Unless otherwise stated, the thresholds apply only to a company's direct involvement in the excluded activities. More information on the application of Negative Screens can be found in the Additional Information to the PDS' booklet (which forms part of this PDS). You can download a copy of the PDS and the 'Additional Information to the PDS' from Schroders' website at [www.schroders.com.au](http://www.schroders.com.au)***

The Fund holds securities in the following companies that do not meet our negative revenue screens. We hold these securities by exception and provide the rationale below. In aggregate, these holdings have a 0.3% weight in the portfolio. The list of securities below includes direct holdings, as well as positions in Sustainable Finance Disclosure Regulation (SFDR) Article 8 and 9 funds that are managed by Schroders Group that are held indirectly but does not include derivatives (such as index futures and index options) and ETF positions used for tactical implementation and/or portfolio hedging. As the SFDR Article 8 and 9 funds are held indirectly, the negative screens are not applicable, but their holdings are included below for greater transparency.

### Contact Energy

Contact Energy is a New Zealand energy generator and retailer, that is working towards having its power generation operations being net zero by 2035. It currently operates a number of low carbon geothermal power stations, as well as hydroelectric power plants. It is also working on the development of various solar

and wind farm projects, as well as partnering with Tesla on the development of large scale battery infrastructure. It's climate targets and ambitions have been independently certified through the Science Based Target initiative (SBTi) as being aligned to 1.5 degrees of warming. Contact Energy is held directly through our allocation to investment grade credit, as well as indirectly through one of our Global Credit managers.

## Clearway Energy

Clearway Energy is a leading clean energy company in the US, which operates solar, wind, natural gas and battery storage energy projects. Clearway generates the majority of its revenue through its portfolio of renewable energy assets, while as of 2024 95% of its power generation is carbon free. It is also on track to achieve net zero on its scope 1 and 2 greenhouse gas emissions by 2050. Clearway is also involved in various regenerative development projects aimed at improving ecosystems, enhancing / conserving biodiversity and sequestering carbon. Clearway Energy is held indirectly through one of our Global Credit managers.

## Heineken

Heineken is a Dutch brewing company, that produces a wide range of beers and ciders globally. Heineken has committed to reach net zero emissions across its value chain by 2040, while also committing to reduce Scope 1 and 2 emissions by 90% by 2030 (relative to a 2022 base year), along with targets on circularity and water usage. The company has been involved in a significant number of renewable energy projects worldwide to help Heineken achieve its climate targets, with management compensation also tied to climate KPIs. Heineken is held indirectly through one of underlying our Global Equity managers.

## NextEra Energy

The largest clean energy company in the US, who are also in the business of buying up bigger polluting utilities and improving their emissions by transitioning them to renewable sources. Its historical CO2 emissions have continuously been lower than the US power sector average with a target to reduce emissions by 82% by 2030 (against a 2005 baseline). The company has set ambitious Real Zero emissions reductions targets, aiming to reduce emissions by over 85% through 2030, and to be Real Zero by 2045. NextEra Energy is held indirectly through one of our underlying Global Equity managers.

## Market Outlook

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The US-Iran ceasefire helped equities rebound. Financial conditions eased, with the US dollar falling, credit spreads tightening from their peaks and strong earnings results, particularly from the US technology sector. Positioning, which was mostly washed out in March, started to rebuild as momentum trading funds started buying back. But with US equities now up over 14% from the low and from a technical standpoint looking very overbought, the question now becomes if this justifies a medium-to-long term bullish stance or should be viewed more as short covering.

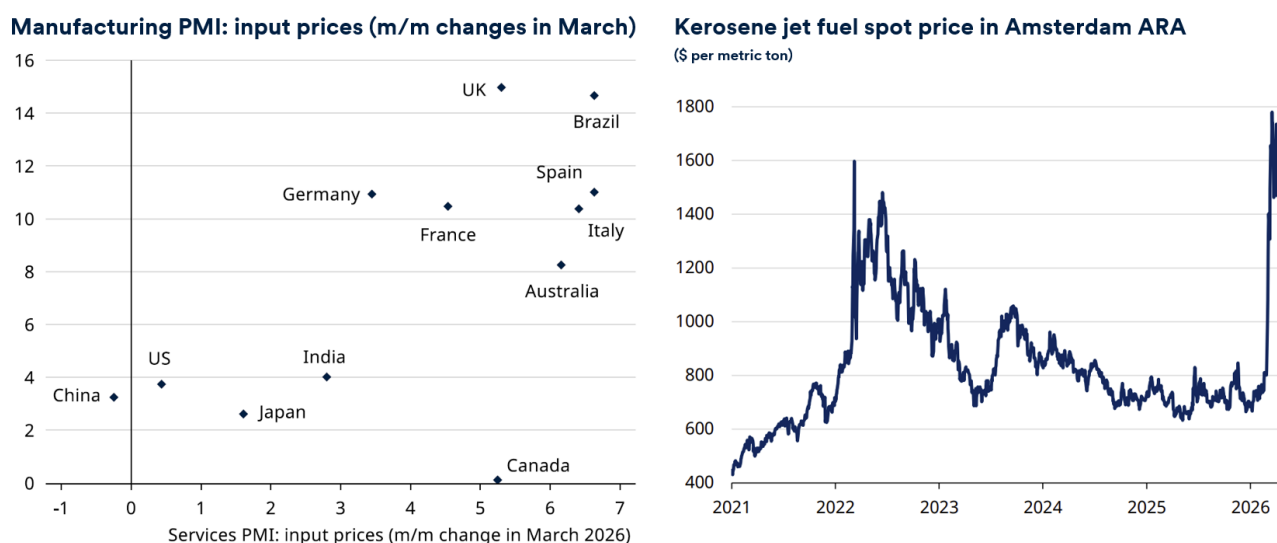
We have no foresight when it comes to ending the conflict in Iran. We have stated from the start of this conflict that all eyes will be on the Strait of Hormuz. We need to see the boats pass and the oil flow for us to put this conflict behind us. Any rhetoric or deal that does not see the Strait reopen is not one that helps the global economy. The longer the Strait remains closed, the more energy shortages the world will face, the higher inflation will go, the more consumer spending will be impacted and the higher the chance of a stagflationary shock that rivals 2022. This is not our base case, but the downside risk remains while the Strait remains closed. The longer it remains closed, the more damage will be done. The clock is ticking.

However, at least now the two sides are talking to each other, supposedly. The ceasefire is a fragile one, but the bombs have stopped falling for now. The two sides continue to play a game of chicken to see who will capitulate first. Iran continues to block the Strait, causing higher energy prices and inflation around the world, damaging Trump's mid-term election odds and putting economic pressure on US allies. But the US is also blocking the Strait, choking off revenue to the regime (US\$500m a day according to Trump) while the US Treasury undertakes Operation Economic Fury, freezing Iranian funds around the world. Reports say that

salaries have not been paid in Iran (although hard to verify) showing that the economic pressure is real. Therefore, we believe both are pressured to come to the negotiating table, but time could actually be on Trump's side.

From a regional perspective, the US is the least dirty shirt. Their relative energy independence puts them above their regional peers. In April, the US exported a record of 5.2 million barrels of oil per day and also hit a new high of liquefied natural gas (LNG) exports. While the US has not invested in sustained supply to help keep this trend going, it has its resilience and even ability to benefit during this current crisis. While it is incorrect to say the US has no exposure to the Strait of Hormuz (they imported 0.4 million barrels a day through the Strait pre conflict), they will not suffer nearly as much as their European or Asian allies. Even though we have not seen the inflation impact in the data yet, we are seeing input prices rise in both manufacturing and services PMIs, with Europe and Australia being impacted more acutely, whereas the US and China remain somewhat insulated.

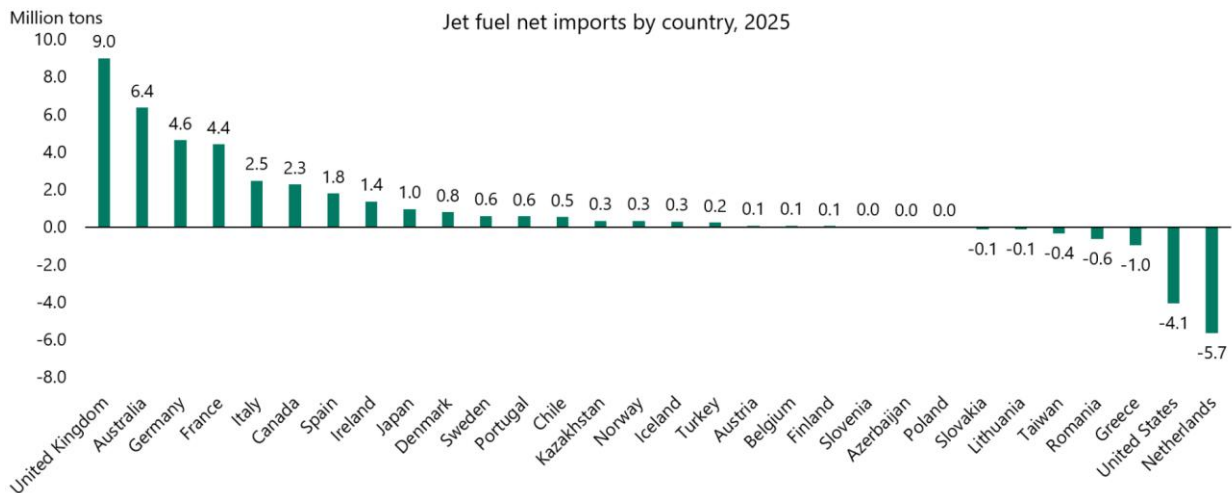
## Chart 1: Input prices already rising in Europe, plus higher jet fuel prices in Europe



Source: LSEG Workspace, Schroders Economics Group. LHS 10 April 2026, RHS 24 April 2026.

Currently we are seeing a scramble for supply, which is pushing prices higher. But we have yet to see real energy scarcity. For now, rich countries are paying more for supply, but eventually we will see countries not have any oil to buy. Air travel is already feeling the pinch, with jet fuel prices surging. This is most acute in Europe and Australia. These countries rely on net imports of jet fuel, whereas the US is a net exporter. The surprise has been China, but given their strategic rebuilding of their oil reserves, the build out of their renewable and nuclear capacity and the ability to burn coal when push comes to shove, has also kept China insulated. While we prefer the US, select emerging market currencies are expected to hold up as well, either given their preparation (China) or their energy or commodity exposure (Latin America), keeps us relatively neutral on emerging market economies. Asian economies that have a tilt towards technology (Taiwan, Korea and Japan, say) are so far benefitting from the market rally, but if the Strait remains closed, these economies could face severe energy shortages that could up-end the positive narrative. Taiwan, Korea and Japan used to import around 2 million barrels a day through the Strait of Hormuz. The South Korean president has even mentioned that the energy crisis is "worse than you think" and is keeping him "up at night". The closure of the Strait is also limiting helium supply, which other than party balloons, is a key component of semiconductor manufacturing. The Nikkei, Kospi and Taiex have all hit new all-time highs this month.

**Chart 2: UK, Australia and Europe most at risk from higher jet fuel prices**



Source: Apollo. 27 April 2026.

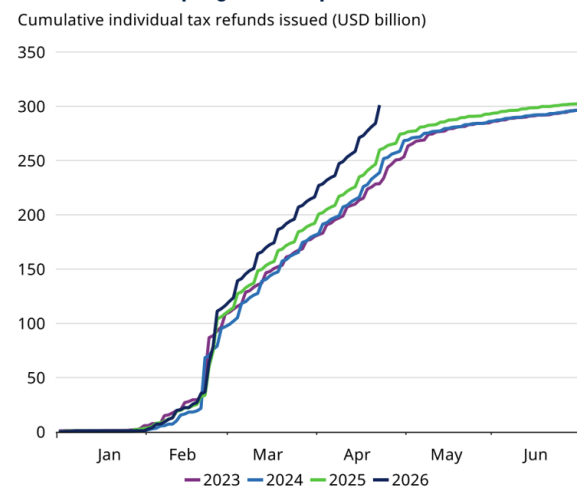
The US economy also entered this conflict from a position of strength. Looking through the government shutdown distortions, US GDP has been strong. Recent retail sales beat expectations, surging 1.7% in March versus expectations of 1.4%. While higher gasoline prices helped push this number higher, there was broad strength across components even when excluding autos and gas. We're also seeing an improvement in job numbers, with non-farm payrolls unexpectedly surging 178k versus expectations of 60k. Both initial claims and continuing claims are falling, which is a positive sign for the job market. Looking at the ADP weekly labour-market pulse, intentions to hire continue to rise despite the conflict. Trump's One Big Beautiful Bill is providing excessive tax refunds in 2026, which is helping consumers spend despite higher prices. This combination of an improving market and government handouts, coupled with better energy security, all bode well for the US, relatively speaking.

**Chart 3: Higher prices are being offset by an increase in tax refunds and improving job market, allowing US consumers to keep spending**

**Intention to hire continues to rise despite the conflict**



**Tax refunds keeping consumption solid**



Source: Macrobond, Schroders Economics Group. 24 April 2026.

However, we are not complacent. As we keep reiterating, the longer the Strait remains closed, the more damage that will be done to the global economy. For now, we prefer the US and emerging markets but want to see concrete proof that the Strait has reopened before we start improving our outlook for Europe and Australia. If the Strait remains closed for an extended period, even the US economy will start to come under pressure. Tick tock.

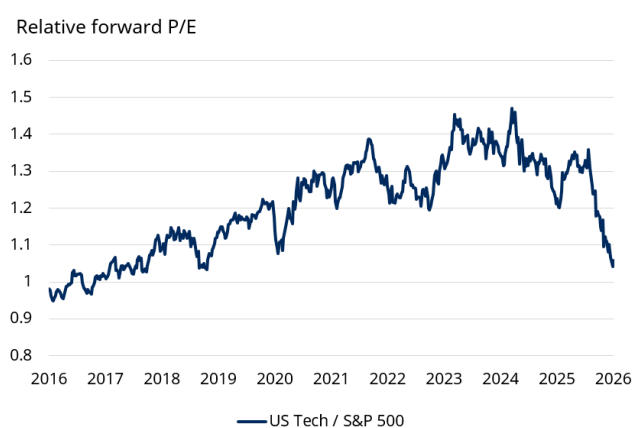
## Portfolio changes

### Equities

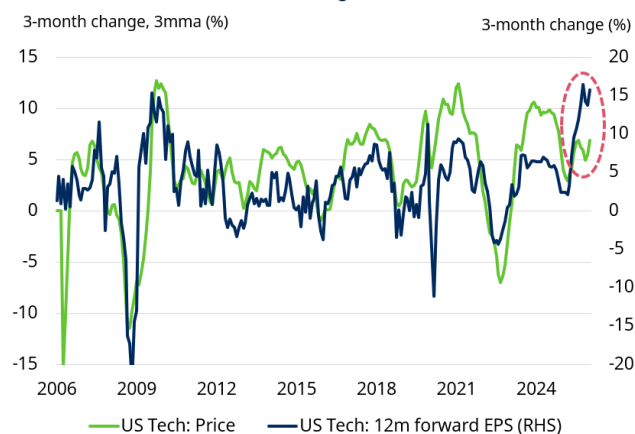
Our regional preferences have not changed. We prefer the US and emerging markets and remain cautious on all other regions. US earnings continue to defy expectations, with aggregate earnings surprising by an astonishing 20%, with 84% of companies delivering beats. Expectations for next year are for 20% earnings per share (EPS) growth. Valuations of US technology companies relative to the S&P 500 have fallen to the lowest level since 2019 so far this year, first from AI fears, then from the conflict and now because earnings are improving. Positioning has mostly washed out, with retail investors capitulating and getting down to very low levels of exposure, along with systematic strategies who sold during the spike in volatility. Momentum traders however, have since bought back strongly. We are seeing positive returns from US tech being outpaced by improvements in forward earnings. We therefore have been adding to US tech during this rebound.

### Chart 4: US Tech has cheapened since the Iran conflict and earnings remain resilient

Valuations have reset after recent sell-off



Tech continues to be an earnings-driven market



Source: Schroders, Refinitiv Datastream, 16 April 2026. Past performance is not a guide to future performance and may not be repeated. For illustrative purposes only.

We also remain neutral on emerging market equities. China has seen some improvement in growth from a rebound in fixed asset investment, but overall the economy remains subdued. China is one of the least affected in the region when it comes to oil imports, given they can still access Russian oil, but otherwise rely on coal and their renewable build out. China has also been building their strategic petroleum reserve over the last few years, which should somewhat insulate them for the time being.

In portfolios, we added very marginally to our equity weight taking the equity allocation to around 65.5% (1.5% underweight the benchmark), inclusive of the options positions that we hold within our Fund. That said the underlying regional exposure has shifted, as we have added 1.5% to the US, while reducing our exposure to Europe and Australia, both markets which we think remain more vulnerable to an extended energy shock.

### Fixed Income and Credit

The inflation shock from higher energy prices has helped reset rate cut expectations. The US originally had three rate cuts priced for this year, which has now been removed. Europe had no rate hikes priced but now has two hikes priced. We have upgraded most regions to neutral from negative due to this rerating in the terminal rate. Over the month, we trimmed duration at the margin from 1.4 years to 1.3 years, with active duration now close to the benchmark level. At a country level we continue to like Australian 10-year bonds, where we believe a yield of 5% still offers attractive longer-term value. We have pared back our US 1 year inflation swap back to half its original size, taking some profit on this position, but still maintain some exposure as a portfolio hedge should inflation risks increase again.

Within credit, we have increased our allocation to US securitised credit by 1.5% to a 3% allocation. This is one of the few areas within the broader credit universe, where spreads remain reasonable from a valuation perspective and therefore, we believe that this allocation can help to provide the overall portfolio with some additional carry.

## **Currency and Commodities**

We remain positive on the US dollar (USD). The USD is one of the few portfolio hedges for the current geopolitical situation, and we like it from a portfolio construction perspective. While the US dollar could move in either direction given the uncertainty surrounding the Iranian war, we believe the risk profile is likely to be more asymmetric in favour of the upside. A risk-on scenario could see some further moderate depreciation in the US dollar, but given how highly uncertain negotiations are, there is also the prospect of further risk-off, which could see outsized gains in the US dollar. We remain negative on the Euro (EUR) and British pound (GBP) given the stagflationary direction of these economies, with the Euro facing more pressure from higher energy prices and the UK is vulnerable from its restrictive fiscal policy and benign growth. We remain neutral on the Japanese yen (JPY) and the Australian dollar (AUD). On a benchmark relative basis, we remain overweight the USD and underweight the GBP and EUR. We also maintain the 4% basket to a range of currencies (Norwegian Krone, Brazilian Real and Canadian Dollar) that are linked to countries that are net exporters of commodities, whose currencies have historically appreciated during periods of higher energy prices.

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