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Schroder ISF* Global Energy Transition

Fund Managers: Mark Lacey, Alex Monk and Felix Odey | Fund update: December 2024

Performance overview

– Energy transition equities had challenging end to a difficult year in December, with ongoing concern about US policy adjustments, limited earnings news and rising bond yields all weighing on the space.
– Most sub-sectors saw negative returns during the month, with Renewable Equipment and Renewable Generation particularly weak. Electrical Equipment also had a negative month, following an otherwise very strong year as concerns around valuations built.
– Clean Mobility was the best performer, with ongoing strength in Tesla and signs of bottoming in demand potentially starting to come through.
– The fund significantly underperformed the ACWI but outperformed the MSCI Global Alternative Energy Index over the month.

Drivers of fund performance

– The weakest absolute performance in December once again came from core holdings in Renewable Equipment and Renewable Generation as ongoing concerns about future growth in the current macro environment put further pressure on **Vestas**, **First Solar**, **EDPR**, **Acciona Energia,** and **Ormat**. Our underweights in some of these names compared to the MSCI Global Alternative Energy Index helped relative performance to a degree.
– Other poor performance came from **Landis + Gyr** in Electrical Equipment, due to ongoing concerns about future earnings given potential corporate restructuring.
– The positive performers in the month mostly came from Clean Mobility related names, with Forvia, OPMobility, and CATL all performing well as signs of a bottoming in auto production started to come through.

Portfolio activity:

– During the quarter we took advantage of further weakness in the renewable energy complex to add to key market leaders such as **Vestas, Enphase, First Solar, Nextracker, EDPR** and **Solaria.** While there is still near-term uncertainty, we continue to see strong long-term fundamentals and valuations remain very attractive on a mid-term view.
– To fund these purchases, we continued to trim our Transmission and Distribution exposures, such as **Redeia** and **Hydro One**, given the relative strength shown and now less attractive risk-reward based on expected future earnings growth.
– We took cash to all time low levels for the strategy given the attractive mid-term risk-reward we currently see.

Outlook/positioning

– We see a potentially attractive risk-reward set up entering next year, with valuations and sentiment depressed, and earnings expectations materially lowered. This sets the sector up for a stronger year if companies can deliver on the earnings ambitions.
– We remain conscious about multiple market risks near-term – including prolonged weak consumer demand, ongoing policy uncertainty and disruption, and longer-term inflationary threats – but believe robust structural demand drivers for clean energy solutions can overcome these headwinds overtime.
– We continue to deploy client capital in a disciplined manner and using weakness to layer into quality, sustainable businesses with strong balance sheets and relative upside. We continue to keep cash within the portfolio low on a normalised basis.

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

Calendar year performance (%)

Year	Fund (I-Acc)	MSCI Global Alternative Energy	MSCI All Country World Index
2024	-26.9	-32.5	17.5
2023	-8.4	-25.4	22.2
2022	-4.2	-6.5	-18.4
2021	-3.0	-17.6	18.5
2020	95.3	107.9	16.3
2019*	--	--	--

Source: Schroders, as at 31st December 2024. Fund performance is net of fees, NAV to NAV with net income reinvested, I Acc shares. Please see factsheet for other share classes. MSCI Global Alternative Energy Index (GEAE) and MSCI ACWI used as comparator indices for the fund. *Inception 10 July 2019.

Risk considerations

- **Concentration risk:** The fund may be concentrated in a limited number of geographical regions, industry sectors, markets and/or individual positions. This may result in large changes in the value of the fund, both up or down.
- **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.
- **Currency risk:** The fund may lose value as a result of movements in foreign exchange rates.
- **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.
- **Derivatives 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.
- **Higher volatility risk:** The price of this fund may be volatile as it may take higher risks in search of higher rewards.
- **IBOR risk:** The transition of the financial markets away from the use of interbank offered rates (IBORs) to alternative reference rates may impact certain instruments. This may impact the investment performance of the fund.
- **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.
- **Market risk:** The value of investments can go up and down and an investor may not get back the amount initially invested.
- **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.

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