

# Schroder ISF\* Global Energy Transition

Fund Managers: Mark Lacey, Alex Monk and Felix Odey | Fund update: January 2025

## Performance overview

- Alternative energy equities had a slightly volatile start to 2025 as the sector continued to digest the new macroeconomic and political environment in the US. Rising yields and concerns around future policy action continued to weigh 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, as concerns around grid build-out following commentary from Chinese AI company DeepSeek put pressure on heightened valuations.
- Transmission and Distribution was the strongest performing sub-sector given the relative stability of earnings in this part of the value chain.
- The fund slightly underperformed the MSCI ACWI but outperformed the MSCI Global Alternative Energy Index over the month.

## Drivers of fund performance

- The weakest absolute performance in January came from **EDPR** in Renewable Generation, as concerns around near-term earnings growth and their offshore wind exposure continued to build. **Enphase** in Solar Equipment and **ON Semi** in Electrical Equipment were also weak as ongoing concerns around the timing of the recovery in residential solar and electric vehicles once again grew.
- The best absolute performance came from our two solar tracker exposures in Solar Equipment, with **Nextracker** and **Array** both delivering strong returns following robust earnings from the former.
- Other positive performance came from **Forvia** and **OPMobility** in Clean Mobility, as stabilising auto production provided some support. The fact that both businesses can potential return cashflow to shareholders this year is likely helping momentum too.

## 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**, **First Solar**, **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 continue to keep cash at 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 for 2025, 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 alternative 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.

## Calendar year performance (%)

Year	Fund (I-Acc)	MSCI Global Alternative Energy	MSCI All Country World Index
2025 YTD	0.6	-3.5	3.4
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 31<sup>st</sup> January 2025. 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.

**Sustainability risk:** The fund has the objective of sustainable investment. This means it may have limited exposure to some companies, industries or sectors and may forego 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 values of any particular investor.

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