

Schroder ISF* Global Energy Transition

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

Performance overview

- Energy transition equities had a relatively benign March, with flat performance seen across the space overall. Stabilizing power prices and bond yields resulted in a calmer macroeconomic environment, allowing idiosyncratic news flow to shine through.
- The best performing sector was Electrical Equipment, where momentum remained strong given continued excitement around the strength of demand in key end-markets such as electricity grids and data centres.
- The worst performing sector was Clean Mobility, where concerns around slowing demand for electric vehicles continued to weigh on the sector in the face of both overcapacity and potential financing risks.
- The fund delivered a very strong performance over the month strongly outperforming both the MSCI Global Alternative Energy Index and MSCI ACWI due to stock-specific drivers.

Drivers of fund performance

- The strong relative performance for the fund during March can be attributed to individual stocks that benefited from company-specific news flow. This includes: **Encavis**, a German renewable power producer that received a takeover bid from KKR; **Xinyi Solar**, who delivered strong fundamental earnings; **Johnson Matthey**, who announced the sale of a non-core business at a very strong price with the proceeds to fund a buyback; and **Samsung SDI**, who announced strong technical progress on solid state batteries. The common thread between the strong outperformance of these companies was better than expected stock-specific news together with depressed valuations.
- Elsewhere, our recently added to Chinese exposures all performed well, with **CATL**, **Flat Glass**, and **Sungrow** all delivering strong returns.
- The weaker performing companies with the portfolio during March included **De Nora**, **Shoals**, **Stem** and **OX2**, where despite relatively resilient fundamental performance, the lack of positive earnings catalysts continue to see pressure placed on the shares.

Portfolio activity:

- We continue to focus on building exposure to two groups of companies across the portfolio at present.
- First are parts of the space continuing to experience short-term earnings pressures, but that remain attractive long-term opportunities given their growth outlooks and strong balance sheets. This includes **SolarEdge** and **Enphase** in residential solar, **Array** and **First Solar** in utility-scale solar, **Johnson Matthey** in Hydrogen, and **Umicore** and **Samsung SDI** in batteries. We also continue to slowly build our exposure to renewable generation companies such as **EDPR**, **Solaria**, and **Acciona Energia** given recent share price weakness and now depressed valuations across this part of the sector.
- The second is areas with continued strong earnings momentum, but where valuations are still relatively reasonable. This includes **Nexans**, **SPIE**, **Landis+Gyr** and **Legrand** in electrical equipment, as well as **Vestas** and **Nordex** in renewable equipment.

Outlook/positioning

- We continue to think that valuations across energy transition equities look attractive on a long-term view having materially reset over the last two years. Earnings expectations have normalised too, resulting in much more favourable relative risk-reward across the sector at the this time.
- We remain conscious about multiple market risks near-term – including slowing short-term demand due to macroeconomic conditions and longer-term inflationary threats – but believe future earnings inflections can overcome these headwinds over time.
- 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. Our cash position is now close to the lowest level it has been since the inception of the strategy.

Calendar year performance (%)

Year	Fund (I-Acc)	MSCI Global Alternative Energy	MSCI All Country World Index
2024 YTD	-6.1	-10.2	8.2
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 March 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.
- 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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