

# Schroder ISF\* Global Energy Transition

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

## Performance overview

- Energy transition equities had a challenging June, significantly underperforming the wider market. Earnings downgrades in consumer-focused markets, such as electric vehicles and residential solar, and a sharp turn in sentiment following European elections weighed on the sector.
- The best performing sector was Transmission and Distribution, which proved relatively resilient to the cyclical pressures impacting the universe.
- All other sub-sectors delivered a negative return during the month, but Solar Equipment, Wind Equipment, and Clean Mobility were especially weak.
- The fund delivered a material negative return during the month, underperforming the MSCI ACWI but outperforming the MSCI Global Alternative Energy Index.

## Drivers of fund performance

- The strongest positive attribution during May came from Transmission and Distribution, with **Hydro One** and **Redeia** both delivering resilient performance during a challenging month. Outside of this sub-sector, **Sif Holding** also delivered a strong return, with visibility on future earnings growth within its offshore wind business continuing to build.
- The most challenging performance was seen across Solar Equipment and Batteries and Storage. Within batteries, **Umicore** announced a cut to its full year earnings expectations due to weak electric vehicle demand short-term. While their long-term position remains strong, the cut to earnings for this year was quite significant. Within solar, weakness was seen across the residential complex, with **SMA Solar** cutting their expected earnings for the year on soft demand, as well as utility, with **First Solar** and **Array** pulling back on concerns about US project delays.
- Finally, in Electrical Equipment, **Alfen** was also a drag on performance during the month of June, with earnings cut due to short-term issues across their business divisions. Our high exposure to France also had an impact following the announcement of an election in July.

## 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 **Enphase** in residential solar, **Array** in utility-scale solar, **Johnson Matthey** in Hydrogen, **Alfen** in electrical equipment, and **Umicore** and **Samsung SDI** in batteries. We also continue to position in renewable generation companies such as **EDPR**, **Solaria**, and **Acciona Energia** given the still depressed valuations across this part of the sector and growing excitement around demand for power.
- 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** 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 more favourable risk-reward across the sector.
- 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. We continue to keep cash within the portfolio low on a normalised basis, despite the recent increase following two takeover bids.

## Calendar year performance (%)

Year	Fund (I-Acc)	MSCI Global Alternative Energy	MSCI All Country World Index
2024 YTD	-12.3	-12.9	11.3
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 30 June 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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