

Schroder ISF* Global Energy

Fund Managers: Mark Lacey, Felix Odey & Alex Monk | Fund update: May 2025

Performance overview

- The SISF Global Energy fund increased by 5.8%. The fund underperformed the MSCI Global Energy SMID Index, which increased by 6.4%, and outperformed the MSCI Global Energy Index which increased by 2.0% during the month.
- Brent oil prices increased by 1.2% during the month.
- The prospect of the impact of tariffs being better than initially feared, alongside realised OPEC supply additions coming in below guidance stabilised markets.
- Underlying oil and product inventories remain low, but the prospective combination of weakening demand and additional supply from both non-OPEC and OPEC producers is expected to result in inventory builds over the next few months.
- WTI prices below \$55/bl are likely required before US oil and gas producers materially cut capex.
- US gas prices rose by 3.6% in May finishing at \$3.45/MMbtu. While weather and limited storage mean gas prices will remain volatile, the demand pull from new LNG terminals ramping up should mean prices remain well supported at current levels as we head into the second half of 2025.
- Drilling activity declined 5% in the US during the month. The headline figure masks a 7% decline in oil rigs and a 10% increase in gas rigs. The differing trajectories of rig activity reflects the differing fundamental demand outlooks for the two commodities.
- European gas prices rose 5.4% in May. Given storage levels are currently 17% below normal, we continue to expect the European gas market to remain tight for the year ahead.
- Lithium carbonate prices weakened significantly in May, falling 10.1%, to end the month at \$8,400/ton. Supply cuts have been limited despite current prices being below the cost of production. Due to US tariffs in particular, demand growth for key end markets such as EVs is expected to slow in H2 2025. The outlooks appears challenged and supply discipline is crucially still missing.
- The best performing conventional energy subsectors in May were US refining (12.9%) and the European oilfield services (10.1%). In contrast, the worst performing sectors were the US integrateds (-1.2%) and lithium (-14.1%).
- For the year-to-date 2025, to the end of May, the SISF Global Energy fund has returned 0.5%. This compares favourably to the MSCI Global Energy SMID Index which is down -3.4% and the MSCI Global Energy Index which is flat 0.0%.

Drivers of fund performance

- The fund underperformed its benchmark during the month.
- Positive attribution came from the fund's holdings in Chart Industries, Repsol and HF Sinclair.
- Positive attribution was partially offset due to underweight positions in EQT and Baker Hughes, as well as the fund's position in Darling Ingredients.

Portfolio activity:

- The fund sold its stake in Flowco, where long term EBITDA margin expectations appear too high relative to those achieved by peers. Reflecting more realistic margins into our model yields us no upside.
- The fund bought a stake in US gas producer CNX, which has a highly hedged production base giving it strong FCF generation visibility. Management are using this FCF to buy back shares which we believe are trading well below intrinsic value on our estimates.

Outlook:

- We remain positive on the outlook for the conventional energy equities.
- The sector remains extremely well capitalised, with many balance sheets with a net cash position.
- The sector continues to generate strong levels of free cash, which is being distributed back to shareholders.
- Companies held in the portfolio are paying cash dividends of between 5% to 14% for 2025*

Source: Company data/Schroders - as at 30/05/2025*

Calendar year performance (%)

Year	Fund (I-Acc)	MSCI Global Energy SMID	MSCI World Energy
2025 YTD	+0.5	-3.4	0.0
2024	-2.7	+9.1	+3.6
2023	+18.5	+8.7	+3.5
2022	+35.1	+44.4	+47.6
2021	+49.9	+48.4	+41.8
2020	-31.1	-30.9	-30.5

Source: Schroders, as at 31st May 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 Energy SMID Index (GE SMID) and MSCI Global Energy are used as comparator indices for the fund.

Risk considerations

- 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.
- 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.
- Operational risk: Operational processes, including those related to the safekeeping of assets, may fail. This may result in losses to the fund.
- Currency risk: The fund may lose value as a result of movements in foreign exchange rates.
- Derivatives risk – Efficient Portfolio Management and Investment Purposes: 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. The fund may also materially invest in derivatives including using short selling and leverage techniques with the aim of making a return. When the value of an asset changes, the value of a derivative based on that asset may change to a much greater extent. This may result in greater losses than investing in the underlying asset.
- Market risk: The value of investments can go up and down and an investor may not get back the amount initially invested.
- 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.
- Higher volatility risk: The price of this fund may be volatile as it may take higher risks in search of higher rewards.
- 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.
- IBOR: The transition of the financial markets away from the use of interbank offered rates (IBORs) to alternative reference rates may impact the valuation of certain holdings and disrupt liquidity in certain instruments. This may impact the investment performance of the fund.

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