Schroders

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Schroder ISF* Global Energy

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

Performance overview

- The SISF Global Energy fund increased by 7.9% in March. The fund underperformed the MSCI Global Energy SMID Index, which increased by 9.1%, and the MSCI Global Energy Index which returned +9.2% during the month.
- Brent oil prices increased by 4.7% during the month. Oil demand from India continues to exceed expectations. Record low hedging (covering 14% volumes) from US producers indicates a bullish outlook for oil.
- Following sharp inventory builds in Q4 2023, the start of the year has seen inventories in both oil and refined products stabilise. Total oil stocks (including crude and products) are at 5-year lows.
- OPEC output has been flat during February after falling 6% in January. March data is yet to be released. The cartel has announced that they will extend cuts into Q2 2024.
- Front month US gas prices fell 4% in March, briefly trading below \$1.60/Mcf. The current prices, c\$1.80 at time of writing, are well below the estimated industry breakeven price. In response to this the industry is behaving rationally and shutting in production.
- In both North America and Europe, average temperatures and rainfall continue to exceed expectations, and this is boosting supply of hydro power while at the same time dampening demand.
- European gas prices (TTF) rose 7% during March to €28 but are still down 50% since October 2023 as limited demand and a warm weather mean storage levels are 45% above the 5-year average.
- The best performing energy subsectors in March were the US Refining & Marketing sector and Global Oil and Gas Services sector which were up 15.5% and 11% respectively. The worst performing energy subsectors in March were the Global Lithium sector and European Integrated sector which moved -3.3% and +4.4% respectively.
- For the year-to-date 2024, the SISF Global Energy fund has increased by 4.2%. This compares to the MSCI Global Energy SMID Index which has returned +11.4% and the MSCI Global Energy Index which has returned +10.0% for the year to date.

Drivers of fund performance

- The fund underperformed its benchmark during the month.
- The fund's exposure to Coterra, Apa Corp and Devon drove the positive performance.
- Partially offsetting this, Wood Group and EQT provided negative attribution during the month.

Portfolio activity:

- Following a period of underperformance APA Corp was added to the fund to increase oil exposure.
- Birchcliff was removed from the fund as the managers sought to consolidate gas in companies with higher quality asset bases with strong management teams.

Outlook/positioning

- We continue to remain bullish on valuations across the conventional energy space, as tightness in selective conventional energy markets are likely to persist into 2024.
- Broad equity market volatility has increased and broad equity weakness is a potential risk.

Calendar year performance (%)

Year	Fund (I-Acc)	MSCI Global Energy SMID	MSCI World Energy
YTD	+4.2	+11.4	+10.0
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
2019	-0.5	+2.4	+12.5

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 Energy SMID Index (GE SMID) and MSCI Global Energy are used as comparator indices for the fund.

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

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.

Important information