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Schroder ISF* Global Climate Change Equity

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Fund update: October 2025

Performance overview

- Global equity markets extended their rally in October, buoyed by another Federal Reserve rate cut and sustained AI-driven momentum. However, volatility increased with several notable market events. News of fraudulent NDFI-linked loans and bankruptcies triggered a sharp sell-off in regional bank stocks. Also, the escalating US–China trade tensions over rare earth mineral export controls led to large daily declines, before progress in negotiations later in the month spurred the recovery.
- US equities advanced during the month, with the S&P 500 rising 2.3% to a new all-time high, marking its sixth consecutive monthly advance. The Nasdaq outperformed, climbing 4.7% as investor enthusiasm for artificial intelligence and robust Q3 earnings from technology giants continued to dominate sentiment. The Fed's quarter-point cut to 3.75–4.00% and signals of a pause in balance sheet reduction reinforced risk appetite, despite lingering concerns over valuations and a protracted government shutdown. Eurozone shares were steady. In a broadly quiet month, French politics remained a focal point following Prime Minister Lecornu's resignation and subsequent reappointment amid parliamentary divisions. UK equities posted modest gains, with the FTSE 100 supported by energy and mining stocks as gold surged past $4,000 per ounce before retreating on profit-taking. Fiscal concerns persisted as elevated government borrowing sets a challenging backdrop ahead of the November Budget. Emerging market (EM) equities rose and outperformed developed market peers, boosted by strong performance from index heavyweights Korea and Taiwan while Argentina's MSCI Index surged 64% following a decisive midterm election victory by President Javier Milei's party. Japanese equities delivered strong gains. Sanae Takaichi became Japan's first female prime minister, forming a coalition government focused on "responsible proactive fiscal policy" in critical areas such as AI, defence spending, food security and energy reform. Investor optimism around policy continuity and reform pushed the Nikkei 225 to a record high.
- Technology stocks outperformed significantly, fuelled by blockbuster cloud deals and risk appetite. Utilities also rallied while healthcare also saw some relief as several pharmaceutical companies reached drug pricing agreements with the US administration. Communication services and consumer staples lagged. In aggregate, growth stocks outpaced value by the widest margin in five months.
- The fund outperformed the MSCI All Country World index over the month.

Drivers of fund performance

- Stock selection in communication services sectors added value during the month. Our underweight allocation to financials was also supportive. Conversely, our slight underweight to the information technology sector weighed on returns.
- By region, our underweight exposure and stock selection in North America added value. Whereas the overweight allocation to Europe detracted.
- **Nextracker**, the intelligent solar software specialist was the lead contributor to relative returns for the month. Strong quarterly earnings and growing order backlog boosted investor confidence. Investor enthusiasm was driven by Nextracker's dominant position in utility-scale renewable infrastructure, ongoing product innovation, and expansion into international markets.
- **Chroma,** Taiwanese electronic test equipment maker Chroma performed strongly in October 2025. The stock benefited from a broader semiconductor and electronics sector rebound along with analyst upgrades. Strong Q3 earnings, reflecting resilient demand for Chroma's automated test systems across various industries, boosted future growth expectations.
- Lack of exposure to the Mega cap technology names weighed on relative returns during the period, particularly not holding shares in Apple, Nvidia and Broadcom.
- **Kingspan**, the building materials leader experienced a decline over the month as concerns mounted on margin pressures and slowing demand in key

*Schroder International Selection Fund is referred to as Schroder ISF throughout markets. Despite reporting a sales increase, the market reacted negatively due to cautious guidance and cost inflation impacting profitability.

Portfolio activity:

- We initiated a new position in Spanish renewables business, **EDP Renovaveis.** Where we believe there is a strong earnings outlook, particularly from the US footprint following power prices increasing.
- We sold our holding in Giant. We believe the company is facing headwinds in the cycling market, particularly as sales of bikes slows. We have used the proceeds to top up our holding in Shimano, where we have higher conviction in the component manufacturer.

Outlook/positioning

- While politics at a global level remains challenging for the path to net zero, with the US openly hostile to the de-carbonisation agenda, beneath the surface the transition is gathering pace. Key enabling technologies are booming, with sales of solar, batteries, and electrified vehicles (including commercial vehicles) all growing very strongly in 2025. So much so in fact that Exxon recently reduced their long-term forecast for oil demand to hold steady around 100m barrels per day (bpd), compared to growth towards 110m bpd they previously expected. The main driver of this is the faster penetration of electric vehicles in both passenger and commercial vehicle fleets, representing tangible evidence that the EV transition is making a difference.
- The recent bounce in green stocks suggests weak investor sentiment in this area may finally be turning. Climate technology companies and markets are learning to live with a hostile US Administration, and demand trends remain very strong outside of the US. There are many areas of the portfolio where the impact of US policy change is minimal, given the diverse range of end markets the investee companies are exposed to. Even within renewables, it is worth contextualising the significance of the US market: 74% of wind and solar projects currently under construction are in China. The US accounts for just 5.9%, according to recent research by Global Energy Monitor. Our investment process involves seeking out companies with high conviction growth gaps, valuation upside, and moderate fundamental risk: this remains our day-to-day focus, despite all the US policy noise.
- The dog that hasn't (yet) barked is the cyclical recovery in Europe, despite four interest rate cuts year to date. The fund is poised for a recovery in European construction trends, but we haven't seen this play out so far. Interest rate policy is a particularly important backdrop for the fund given several of our holdings are exposed to construction cycles (including energy efficient building materials like insulation or building components like HVAC systems). The energy transition more broadly is a capital-intensive theme, with financing costs a critical input, so it is encouraging that rates are coming down now in most major economies.
- Despite all the progress on energy transition, climate change is clearly tracking above many modelled scenarios. As investors we need to recognise that adaptation to disruptive climate change will become a more important feature of our economies and markets in the years ahead. The fund already has several investments in companies that are well positioned to help with protection from, insurance of, and reconstruction from extreme events. We will be talking more about this in future letters, and spending more time on these investments going forwards.

Calendar year performance (%)

	Fund	Benchmark***
2024	4.3	17.5
2023	12.3	22.2
2022	-24.4	-18.4
2021	11.2	19.3
2020	51.7	15.9
2019	25.5	27.7
2018	-10.8	-8.7
2017	30.5	22.4
2016	2.7	7.5
2015	2.0	-0.9

Source : Schroders, net of fees, NAV to NAV with net income reinvested. C Acc share class, as at 31 December 2024. ***MSCI All Country World - Net Return. The Fund does not have a target benchmark. The Fund's performance should be compared against the MSCI All Country World (Net TR) index. The comparator benchmark is only included for performance comparison purposes and does not have any bearing on how the Investment Manager invests the Fund's assets. The Fund's investment universe is expected to overlap materially with the components of the comparator benchmark.

Risk considerations

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.

Capital Risk/Distribution Policy: As the fund intends to pay dividends regardless of its performance, a dividend may represent a return of part of the amount you invested.

Sustainability Risk: The fund has environmental and/or social characteristics. This means it may have limited exposure to some companies, industries or sectors and may forgo certain investment opportunities, or dispose of certain holdings, which 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 value of any particular investor.

Emerging Markets and Frontier Risk: Emerging markets, and especially frontier markets, generally carry greater political, legal, counterparty, operational and liquidity risk than developed markets.

Derivatives Risk – Efficient Portfolio 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.

Currency Risk: The fund may lose value as a result of movements in foreign exchange rates.

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.

IBOR Risk: 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.

Market Risk: The value of investments can go up and down and an investor may not get back the amount initially invested.

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.

Capital Risk/Distribution Policy: As the fund intends to pay dividends regardless of its performance, a dividend may represent a return of part of the amount you invested.

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.

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