

Schroder ISF* Global Climate Change Equity

Fund Managers: Simon Webber, Isabella Hervey-Bathurst | Fund update: March 2025

Performance overview

- Global shares were broadly lower in March amid investor fears over trade tariffs. Emerging markets outperformed developed markets in the month.
- The fund posted a negative return and underperformed the MSCI All Country World index over the month.

Drivers of fund performance

- Stock selection was negative, particularly in communication services, industrials, and materials. Our zero weight allocation to healthcare also weighed on returns. Conversely, our allocations to consumer discretionary, information technology and utilities added value in the month.
- By region, emerging markets and Asia Pacific ex Japan detracted, while allocations to North America, Continental Europe, Japan and the UK added value in the month.
- **Alphabet** underperformed in March. We are likely entering a period of slowing earnings growth given the depreciation headwinds that follow the huge datacentre build. However, the core business continues to operate strongly, the valuation is attractive and we are confident their AI investment will pay off eventually.
- **Chroma ATE, Amazon, and Nvent Electric** were among the biggest individual detractors in March. Allocations to **Infineon Technologies, Analogue Devices** and **Samsung SDI** also detracted in the month.
- US energy company **NextEra Energy** outperformed in March. The company continues to perform well, with growth driven by rising electricity demand, particularly from data centres, and a strong construction pipeline.
- **Swiss Re, Iberdrola, and National Grid** were among the biggest individual contributors in March. Allocations to **Kroger, BYD Company, and Kingfisher** also added value in the month.

Portfolio activity:

- We added to our position in Spanish renewable energy company **Iberdrola** in March following the

recent strong financial results which confirmed our investment thesis for holding the stock.

- We trimmed our position in **Hitachi** in March. Although the investment thesis still appears to be on track, the position size has become very large relative to the remaining upside and our conviction, so have scaled back our position.
- We added to our position in **Tomra** in March. We continue to like the highly idiosyncratic investment case here, based around the rollout of deposit return schemes in Europe and the gradual improvement in the recycling business.

Outlook/positioning

Financing costs are coming down, creating a tailwind for green investment:

Global interest rates, which spiked in response to inflationary pressures, have stabilised, with some central banks starting to announce reductions. Lower borrowing costs provide a much-needed boost for capital-intensive green projects, making investments in renewables, energy storage, and other climate technologies more attractive. Potentially inflationary policies under a new Trump Administration pose a risk factor to this and raise the prospect of a persistently higher US yield curve.

Recovery potential in key end markets, following cyclical weakness:

While markets such as EVs, heat pumps, and residential solar have experienced recent softness, driven by consumer demand slowdowns, and in some cases inventory cycles and policy changes, the medium-term outlook remains bright. As macroeconomic conditions improve and inventory clears, we expect a rebound in these sectors.

Long-term foundations for climate investment remain strong:

Despite short-term challenges, global climate policy frameworks such as the EU Green Deal, along with widespread corporate commitments on climate, continue to support efforts to decarbonise global economies. Additionally, renewable energy remains very competitive with other energy sources, and EV prices are declining as the industry scales.

Valuations are attractive, pain has been taken:

Valuations across many climate-related assets are at attractive levels after a period of prolonged weakness for the theme. However, investor sentiment towards the

sector is subdued, presenting an opportunity for long term investors to buy into industry-leading companies at compelling entry points. Several end markets within the climate theme have now digested a significant amount of 'capital cycle' pain, resulting in significant market cap destruction and a handful of bankruptcies. Our focus remains on companies with the strongest business models, technology, and balance sheets.

US climate policy at risk: The Trump administration has started dismantling various climate policies through a series of executive orders. Whilst it is far from inevitable that the Inflation Reduction Act will be repealed given thin majorities in Congress and competing policy priorities, certain elements are likely to be reduced or removed. The tariffs announced in April will put upward pressure on the cost of clean energy and mobility equipment, potentially slowing the adoption of these technologies. Medium term, there will be less opportunity for an aggressive energy transition and climate investment in the US in the next 4 years. This is disappointing but the rest of the world will not stand still.

More broadly, the likely policy changes following the US election do not change the equation that the long-term outlook for the transition to a low carbon economy is robust. We believe that we are at or close to the bottom of a sentiment and valuation cycle for climate change investing despite a huge opportunity for growth and transformation ahead of us.

Past performance does not predict future returns. The value of investments and the income from them may go down as well as up and investors may not get back the amount originally invested.

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.

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This could affect performance and could cause the fund to defer or suspend redemptions of its shares.

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