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Schroder ISF* Global Climate Change Equity

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

Performance overview

- Strong corporate earnings, moderating inflation and expectations of lower interest rates enabled global equities to post positive returns in August.
- Shares in the US rose, supported by positive earnings while a weaker-than-expected labour report prompted a more dovish tone by Federal Reserve (Fed) Chair Jerome Powell in a speech delivered at the Jackson Hole Economic Symposium.
- From a sector perspective, materials led performance, benefiting from trade agreement progress and expanding manufacturing activity, while technology stocks underperformed globally due to investor concerns over AI investment returns. Broadly, value stocks continued to outperform growth stocks in August.
- The fund posted a positive return and outperformed the MSCI All Country World index over the month.

Drivers of fund performance

- Stock selection in the information technology and industrial sectors added value during the month. Our zero-weight allocation to healthcare weighed on returns.
- By region, our stock selection in Asia and our underweight to North America aided relative returns. Conversely, our holdings in the UK and Japan detracted.
- Taiwan electronic components company, **Chroma**, was the lead contributor to relative returns over the period. Strong second quarter results alongside positive market reaction to new AI driven testing equipment boosted the share price.
- Battery producer, **CATL**, performed well during August. The company continued to benefit from strong demand for EV batteries. The company is also making good progress is next generation battery technologies.
- Lack of exposure to Apple, was the lead detractor to relative returns during the period.
- Weaker than expected Q2 earnings followed by market concerns of a slowing in growth in industrial automation and energy conscious sectors weighed on the share price of **Schneider Electric** during the month.

Portfolio activity:

- We initiated a new position in **Advanced Drainage Systems**, manufacturer of stormwater and onsite wastewater solutions for residential and non-residential construction. They displace concrete (high Co2 emissions) with majority recycled plastic alternatives that last longer and are more robust, so reduced water leakage. Climate change is driving more storm events which drives increased need to invest in their products to manage adaptation to climate change.
- Another new position is, intelligent climate and energy solutions provider, **Carrier Global**. The company is benefiting from strong secular growth, due to building decarbonisation and energy efficiency drivers.
- We sold our holding in Power Grid Corporation of India.

Outlook/positioning

Shifts in US policy fuel global uncertainty: The Trump administration's announcement of sweeping new US tariffs triggered a sharp sell-off, shaking investor confidence and adding to an already uncertain backdrop. While the announced pause has offered momentary relief for investors, the unpredictability of the new policy environment paints an uncertain picture for global markets and the Climate Change theme.

Many energy transition technologies rely on complex global supply chains, so one consequence of higher global tariffs will likely be a costlier energy transition, particularly in the US. This will not necessarily translate into increased costs everywhere; it remains to be seen whether other regions will erect barriers against China trade flows as part of negotiations with the US. The prices of some goods may even fall as supply flows shift.

There will also be relative winners from increased US tariffs, such as international producers who now have greater access to US end markets due to manufacturing operations being built or already operational in the US.

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

Consequently, there will be greater demand with reduced competition from Chinese-based peers for these companies which will be supportive for revenue growth. Near term, the increased uncertainty will lead to slower decision-making on energy transition projects, particularly in the US.

There is an inflation and consumption shock developing in the US economy, and while the pressure is temporarily relieved by the tariff pause, the underlying risk of recession is elevated. The underweight to US equities, particularly domestic sectors like financials and consumer stocks, should be a positive for relative performance in the short-term.

US climate policy There are still some risks to overcome, including adjustments to US tax policy proposals as we continue to move through the budget reconciliation process and the potential consequences of tariffs following the 90-Day pause, but overall we continue to think that the catalysts for the theme can continue to play out over the rest of this year even through periods of potential volatility.

Faling rate environment: While the implications of US tariff policy will have an inflationary impact on many aspects of the Climate Change theme, ongoing rate cuts will provide some offset to the rising costs elsewhere. Global interest rates continue to fall with central banks announcing further cuts to base rates, giving a much-needed boost for capital-intensive green projects, making investments in renewables, energy storage, and other climate technologies more attractive.

Preference for European climate names: The outlook for European investment and economic activity remains favourable in comparison with other regions. We are maintaining our overweight to Europe and the constructive outlook is driven by a pivot towards pro-growth policy and fiscal support as well as a greater recovery potential from an economy with greater sensitivity to rates.

Long-term foundations for climate investment: Outside of the US, the energy transition is not standing still. 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. Renewable energy remains very competitive with other energy sources, and EV prices are declining as the industry scales. Encouraging data points on EV demand in Europe as well as resilient utility spending on the energy transition further bolster this outlook. Valuations across many climate-related assets continue to be attractive after a period of prolonged weakness for the theme.

Conclusion: The rapid pace of policy change requires a calm and considered approach to investment decisions. Sentiment and valuations have fallen and uncertainty is high. Yet, fundamentals for many of the sectors that we invest in are intact, and climate change remains a theme which offers long-term structural growth. Periods of turmoil can create some of the best long-term opportunities for disciplined investors, and we are prepared to act where we see opportunities arise. We are monitoring the evolving situation closely, incorporating new information into our investment cases and continuing to pursue our fundamentally-driven investment approach.

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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