

Schroder ISF* Global Climate Change Equity

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Performance overview

- Global equity markets were broadly positive in May amid easing trade tensions, which reduced recession fears and supported a rebound in market sentiment. The US and China agreed a 90-day suspension of tariffs and progress was made between the US and European Union on trade negotiations. Emerging markets, led by Taiwan and Korea, also continued to benefit from a weakening US dollar.
- Stocks within the clean energy space reacted positively to the House draft of the US budget reconciliation bill ('One Big Beautiful Bill'). Although cuts to clean energy tax credits were made, these proved mostly less severe than feared.
- The fund posted a positive return and outperformed the MSCI All Country World index over the month.
- organic/natural offer, and a focus on greater organic offerings and emphasis on sustainability compared to peers will provide price leadership over the long-term.
- Shenzhen Inovance** underperformed in May as fears over the growth of the automation market in China may slow and the continued uncertainty over the impacts of tariff policies. The company's IA business is a key decarboniser for Chinese industrials and growth in Ev controllers will be a key growth driver for the company going forward.

Portfolio activity:

- We added a new position in **Power Grid India** during the month. the company has a strong role in enabling electrification and renewables across its end markets and we believe current capex upgrades will lead to a greater market share.
- We trimmed our position in **BYD** over the month following strong performance over the year to date and near-term caution over price cuts. We remain confident the company will be a long-term leader in the EV sector.

Drivers of fund performance

- Our exposure to industrials and stock selection within materials as well zero-weight allocations to healthcare and energy added value over the month. Conversely, allocations to financials, utilities and communication services detracted.
- By region, allocations to North America, Continental Europe, emerging markets and Pacific ex-Japan added value whereas holdings in the UK and Japan weighed on returns.
- US solar tech firm **NEXTracker** outperformed following strong FY results reported in May as increased demand for solar solutions saw revenues and net income surpass analyst estimates. The company raised forward guidance and is expected to benefit from tailwinds as a leader among renewable technology peers.
- Microsoft** outperformed over the month following better than expected results for the company in May. EPS and revenues were ahead of consensus, with growth driven by a resurgence in sales for the Azure suite showing positive signs for the company's Intelligent Cloud products.
- US supermarket chain **Kroger** underperformed over the month as defensive stocks lagged following broader market recovery. Kroger is a leader amongst conventional grocers in fresh food and

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. 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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