

Schroder ISF* US Large Cap

Fund Manager: Frank Thormann | Fund update: Q4 2024

Performance overview

- US shares made gains in Q4 to round out a strong year for the S&P 500 index. Equities were supported by Donald Trump's victory in the presidential election.
- The fund posted a positive return and outperformed the performance of the S&P 500 in the fourth quarter.

Drivers of fund performance

- Stock selection was negative, particularly in consumer discretionary, healthcare, and information technology. Conversely, selection in communication services and financials added value in the fourth quarter. Our zero-weight allocations to materials and real estate also contributed.
- Our allocations to **Netflix**, **Spotify Technology**, and **Morgan Stanley** were among the biggest individual contributors in the fourth quarter. Holdings in **Salesforce**, **GE Vernova**, and **Booking Holdings** also added value in the quarter.
- Zero-weight allocations to UnitedHealth Group and Advanced Micro Devices also added value in the fourth quarter.
- **Elevance Health**, **Uber Technologies**, and **Eli Lilly** were among the biggest individual detractors in the fourth quarter. Allocations to **Kia**, **Apple**, and **Adobe** also detracted in the quarter.
- Zero-weight holdings in Tesla and Broadcom also detracted in the fourth quarter.

Portfolio activity:

- We initiated a new position in US energy company **NextEra Energy** in the fourth quarter. The company's growth continues to be driven by rising electricity demand, particularly from data centres, and a strong construction pipeline. NextEra should benefit from higher electricity prices, has potential value from accretive M&A activity and we believe is unlikely to see much negative impact from the incoming Trump administration.
- We initiated new position in US energy company **Public Service Enterprise** in the fourth quarter. This was an opportunistic purchase, with the investment thesis based on the expectations that the company can sign a longer-term nuclear contract at much better than historical prices. Despite existing as a capital intensive utility, a large step up in price without any accompanying increase in cost should lead to large step up in structural profitability. Nuclear electricity generators with excess capacity are also a scarce asset in the US.
- We sold our position in US home improvement retailer **Lowe's Companies** in the fourth quarter. Although the stock has performed well and the company remains a quality business, underlying demand is now negative and lead indicators suggest that 2025 could be another disappointing year due to falling housing turnover and reduced consumer spending on home remodelling.

Outlook/positioning

- The current environment is one of high uncertainty. Tighter financial conditions are beginning to take effect while earnings have already begun to slow.
- We continue to monitor the market landscape closely and maintain a well-diversified portfolio reflecting a fluid outlook with a wide range of possible outcomes.
- At the stock level for now we continue to emphasize revenue and earnings stability as well as balance sheet strength, which we expect to be rewarded during periods of elevated risk.

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 Net	Standard & Poor's 500 Net TR Lagged
2024	27.6	24.7
2023	22.9	25.7
2022	-16.1	-18.5
2021	28.9	29.3
2020	19.6	17.3
2019	24.9	31.4
2018	-6.6	-6.2

2017	19.4	21.2
2016	7.1	10.7
2015	-0.8	0.7

Source: Schroders, net of fees, bid-bid, with net income reinvested. A Acc share class as at 31 December 2023. The Fund's performance should be assessed against its target benchmark, being to exceed the Standard & Poors 500 (Net TR) Lagged index. The Fund's investment universe is expected to overlap materially with the components of the target benchmark. The Investment Manager invests on a discretionary basis and there are no restrictions on the extent to which the Fund's portfolio and performance may deviate from the target benchmark

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.
- **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.
- **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.
- **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.
- **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.

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