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Schroder ISF* Global Energy Transition

Fund Managers: Mark Lacey, Alex Monk and Felix Odey | Fund update: February 2023

Performance overview

- After a strong start to the year, performance across energy transition equities was more challenged in February, as concerns around prolonged inflationary pressures grew again and as earnings across the space remained impacted by supply chain constraints.
- All sub-sectors posted negative performance during the month, but Wind Equipment, Clean Mobility, and Renewable Generation were particularly weak. These sub-sectors have been the most affected by supply chain pressures over the last two years, and while Renewable Generation was spared last year by higher power prices, the warm winter weather has not provided the same support year to date.
- Electrical Equipment was the strongest performing sub-sector, as the resilience of underlying demand for electrical products continued to impress.
- The fund delivered negative absolute returns over the month, underperforming the MSCI ACWI, but bettering the MSCI Global Alternative Energy Index.

Drivers of fund performance

- Despite the marked weakness in the sub-sector as a whole, the biggest positive contributors to fund performance in February were **Plastic Omnium** and **Faurecia** in the clean mobility supply chain. Helped by strong earnings outlooks as auto production slowly recovers, and their cheap valuations, which helped protect their valuations as interest rates rose, this part of the universe performed very well.
- **Legrand, Landis+Gyr,** and **Schneider Electric** All also performed well following very strong earnings outlooks for the full year.
- The weakest absolute performance came from the Batteries and Energy Storage space, with **LG Chem**, **Stem**, and **Umicore** all under pressure during the month. Continued supply chain disruptions and concerns around margins all weighed on these names.
- **Xinyi Solar** in the Solar Equipment sub-sector also delivered negative returns as solar glass prices remained low and costs of production grew.

Portfolio activity:

- During February we used weakness in Renewable Generation to add to quality names across the space, including **EDPR** and **OX2.** While this sub-sector will be exposed to rising interest rates given its long-dated cash flow profile, we continue to believe energy markets remain tight and that power prices globally will stay higher for longer once normal weather resumes.
- We continued to trim our Electrical Equipment exposure on a relative basis, given outperformance in this sub-sector. Although the economy has remained resilient so far, these companies could be exposed from a normalisation of demand and following the recent share price recovery risk-reward looks less compelling in this part of the space.
- We continue to provide a balanced portfolio for investors that while exposed to structurally-driven clean energy names, also remains disciplined from a valuation perspective.

Outlook/positioning

- Valuations across the energy transition space continue to look attractive on a long-term view as the earnings outlook continues to improve in the mid-term.
- We remain conscious about multiple market risks in the near-term, including continued supply chain pressures, and longer-term growth and inflationary threats.
- Continuing to deploy client capital in a disciplined manner and using weakness to layer into quality, sustainable businesses with strong balance sheets and relative upside.

Calendar year performance (%)

Year	Fund	MSCI GEAE	MSCI ACWI
2023	4.7	-6.5	4.2
2022	-4.2	-6.3	-18.0
2021	-4.0	-17.6	18.5

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

2020	93.4	105.3	16.7
2019*	11.9	6.0	8.2
2018			
2017			
2016			
2015			
2014			
2013			

Source: Schroders, as at 28 February 2023. Fund performance is net of fees, NAV to NAV with net income reinvested, I Acc shares. Please see factsheet for other share classes. MSCI Global Alternative Energy Index (GEAE) and MSCI ACWI used as comparator indices for the fund. *Inception 10 July 2019.

Risk considerations

– **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.

– **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.

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

– **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.

– **Derivatives 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.

– **Higher volatility risk:** The price of this fund may be volatile as it may take higher risks in search of higher rewards.

– **IBOR risk:** The transition of the financial markets away from the use of interbank offered rates (IBORs) to alternative reference rates may impact certain instruments. This may impact the investment performance of the fund.

– **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.

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

– **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.

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