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Schroder ISF* Global Energy Transition

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

Performance overview

- Energy transition equities remained under material pressure in September as continued upward moves in real interest rates and further cyclical earnings challenges across key sub-sectors weighed on sentiment across the entire space
- As in August, all sub-sectors delivered negative returns over the month, but the weakness was once again most pronounced in renewable energy, hydrogen, and clean mobility. It is in these sub-sectors where the cyclical pressures from earnings and interest rates are most severe
- While transmission and distribution and electrical equipment proved relatively defensive, both of these sub-sectors still delivered negative returns over the month

Drivers of fund performance

- From a relative perspective, the most resilient performance in September once again came from our exposures in electrical equipment, **Schneider Electric**, **Nexans**, **Prysmian**, **SPIE**, and **Landis+Gyr** all proving robust. Some of the wind equipment exposures in the portfolio also performed well, with both **Nordex** and **Gurit** delivering positive returns as visibility on market growth inflection improved
- The weakest absolute performance was seen across solar equipment, with **SolarEdge** and **First Solar** under pressure. Energy generation companies such as **EDPR**, **Voltalia**, and **Acciona Energia** were also weak, as concerns about project returns in a higher interest rate environment grew. **LG Chem** and **Samsung SDI** in the battery space were also weak during the month
- We continued to observe signs of more material index-related selling during September, as investors began to capitulate with regards to owning the sustainable energy space

Portfolio activity

- We continue to focus on building exposure to two groups of companies across the portfolio at present
- First are those areas of the energy transition universe that, while currently under pressure due to short-term cyclical earnings concerns, remain attractive long-term opportunities given the growth outlooks ahead. This includes companies like **SolarEdge** and **Enphase** in residential solar, **Vestas** in wind, **EDPR** in renewable generation, and **Umicore** and **Johnson Matthey**
- The second is areas of the universe that are benefiting from continued strong earnings momentum, but where valuations are reasonable. This includes names like **Nexans**, **SPIE**, **Prysmian**, and **Schneider Electric** in electrical equipment
- We continue to deploy cash into the market in a disciplined way given the better mid-term risk reward we see across the energy transition universe today

Outlook/positioning

- Valuations across energy transition equities now look very attractive on a long-term view as the earnings outlook continues to improve in the mid-term even in the face of short-term challenges
- We still remain conscious about multiple market risks in the near-term – including continued supply chain pressures, longer-term growth and inflationary threats, and fast-tightening financial conditions – but believe the coming earnings inflection across many parts of the energy transition space can overcome these headwinds over time
- 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

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