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Schroder Sustainable Global Core PIE Fund
Global Core ESG

Monthly Report – July 2024

Performance to 31 July 2024

Relative to Benchmark^

Fund Performance - Unhedged

Performance – Rolling periods

Total returns (NZD %)	1 month	3 months	CYTD	SI cum*
Portfolio (Gross)	3.34	8.26	22.71	25.00
Portfolio (Net)[1]	3.25	8.13	22.40	24.63
Benchmark^	4.06	8.01	21.16	24.04
Excess (Gross)	-0.72	+0.25	+1.55	+0.96
Excess (Net)	-0.81	+0.12	+1.24	+0.59

Fund Performance - Hedged

Performance – Rolling periods

Total returns (NZD %)	1 month	3 months	CYTD	SI cum*
Portfolio (Gross)	0.18	8.12	16.27	20.61
Portfolio (Net)[1]	0.07	7.97	15.96	20.22
Benchmark^	1.00	7.92	15.31	20.09
Excess (Gross)	-0.82	+0.20	+0.96	+0.52
Excess (Net)	-0.93	+0.05	+0.65	+0.13

Past performance is not a reliable indicator of future performance. The difference between the portfolio and benchmark returns may not equal stated excess returns due to rounding. *Since inception from 30 November 2023. ^For unhedged fund the benchmark is MSCI World ex Tobacco NR NZD and for the hedged version the benchmark is the MSCI World ex Tobacco NR NZD hedged. [1]Estimated annual fund charges for the Schroder Sustainable Global Core PIE Fund are 0.39%.

Portfolio characteristics as at 31 July 2024

	Portfolio	Benchmark
Active share	34.4%	N/A
Number of stocks	457	1,424
Carbon intensity (CO2 t/M$ sales)	66.9	96.2
Beta* (ex-ante)	1.00	N/A
Tracking error* (ex-ante, p.a.)	1.04%	N/A
Portfolio size	NZ$354m	N/A

Source: Schroders. *Based on Aladdin's risk system. ^Benchmark is MSCI World ex tobacco NR NZD.

Market and portfolio commentary

Market review

Whilst equity markets continued to edge higher during July, this masked considerable volatility beneath the surface and a sharp rotation from the crowded mega-tech/AI trade that has dominated index performance this year. A benign set of inflation data in the US initially fuelled optimism that the Fed would ease earlier than expected, driving a rebound in smaller companies perceived as being more rate sensitive. The soft or no-landing scenario seemed intact until disappointing labour market data quickly tipped the balance back towards a harder landing and the perception that the Fed was behind the curve. The bond market moved first with long yields heading lower. Combined with disappointing earnings reports from Intel, Qualcomm and Arm alongside mixed outlooks from the stocks previously known as the Magnificent-7, sentiment soured quickly. A retracement in this year's momentum trade was looking increasingly likely, but the speed of the reversal suggests that prior positioning in the crowded Big Tech trade was significant.

The usual comparison between mainstream Value and Growth indices is clouded by the concentration of the big index stocks in the latter, but it was more of a Growth sell-off than a typical rate sensitive Value rebound. Although sector performance appeared to follow the usual playbook with defensive and yield sensitive areas outperforming (i.e. real estate, utilities, staples and health care), industrials, financials and resources also held up well, suggesting that this was not a typical panic response to rising fears of a global recession.

The dust has yet to settle but at this stage recent price performance indicates an unwinding of very concentrated positions and de-risking rather than a significant change in investor outlook. At a high level, there were many similarities in July to the short covering fuelled rebound in lower quality stocks which characterised the end of 2023. This was painful at the time but quickly ran out of steam. Whilst the latest earnings season in the main has not disappointed, with nearly 80% of those reporting (to the end of July) announcing a positive earnings surprise, investors were largely

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Market and portfolio commentary (continued)

Market review (continued)

underwhelmed by the releases, with the tech sector particularly under pressure. Frustration was also evident in the poor performance of some more stable businesses (e.g. Proctor & Gamble) which led to high dispersion at the stock level.

Outside of the US, UK and Eurozone shares also finished higher in July. The UK market outperformed on its lower exposure to technology, as financials, discretionary and industrial sectors led the way. That said, the larger companies within energy and materials underperformed. Europe saw gains in healthcare, utilities, and industrials sectors with laggards seen in consumer discretionary and information technology. Elsewhere, Japanese equities fell as the Bank of Japan surprised markets by raising interest rates to 0.25% from the previous zero to 0.1% range. However, while the Japanese equity market was down 1.0% in local currency terms, in dollar terms, the market ended up 5.8% following a very sharp rally in the Yen against the dollar as the well-established carry trade unwound.

Emerging markets (EM) lagged developed markets though returns were supported by a weaker dollar. Namely, poor performance from the index heavyweight market, China, proved a drag on the MSCI EM index due to continued challenges in the real estate sector and the spillover effects on the broader economy.

Portfolio commentary

Higher quality areas of the market lagged in July, as investors rotated positioning and covered shorts as part of a broader derisking. Notably there was a broad-based rally across lower quality names which saw the fund finish behind its benchmark, though still comfortably ahead over the year to date. The strategy was impacted by a combination of avoiding low quality rate sensitive areas, which were fuelled on by expectations of rate cuts, and exposure to higher quality companies which underperformed. Notably, exposure to high quality healthcare and technology stocks provided the key headwinds over the month.

In technology, hardware and semiconductor industries were a drag on performance in July considering their broad-based underperformance. In application software exposure to CrowdStrike also had a modest impact to relative performance due to its global outage, but single stock impacts outside of this were limited. The relative impact of our positioning in the big index stocks as a cohort was also not material during July. Elsewhere, preferred higher quality pharmaceuticals were left behind alongside not owning lower quality health equipment names which rallied. Outside of this, our longstanding avoidance of utilities and real estate on quality considerations detracted, as they rebounded on hopes for incoming interest rate cuts. Partially offsetting the headwinds, stock selection assisted within more cyclical spaces exhibiting including financials (banks, insurers) and industrials (construction, business services) which outperformed in July.

At a high level, the portfolio remains well diversified across stock, geography and sector with a continued focus on companies with solid fundamentals that are not overpriced in line with our underlying investment philosophy. Given the multiple inputs employed within our process, the strategy continues to be exposed to a range of themes and with a broad allocation across our distinct measures of Value & Quality.

At the end of the month, some of the largest overweight's in the strategy were within financials and healthcare, driven by higher than index exposure to insurers and pharmaceuticals respectively. We continue to favour securities exhibiting high quality characteristics and at favourable valuations while maintaining diversification across the portfolio. The strategy continues to be underweight real estate and utilities which we view as highly leveraged and unappealing in valuation terms. From a regional perspective, the strategy is overweight North America & Emerging Markets . Elsewhere, we are underweight Japan and the UK, whilst now maintaining an index neutral exposure to Continental

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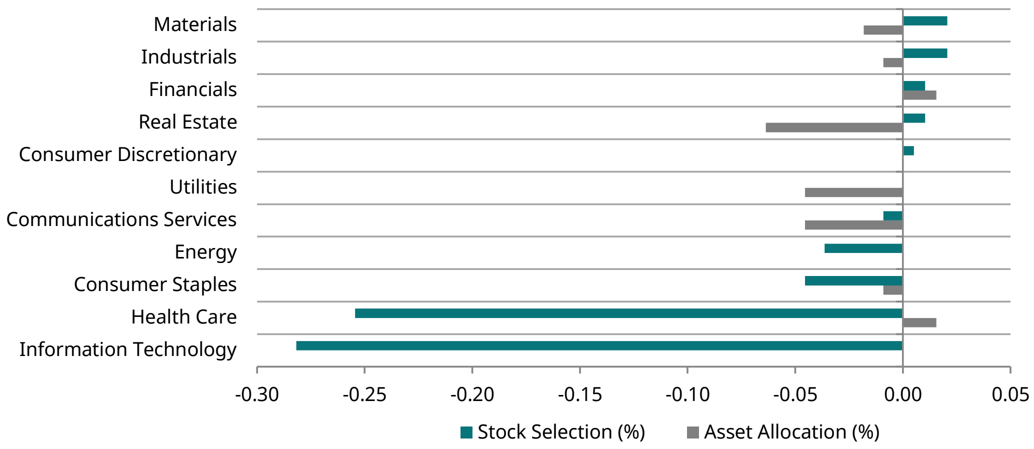
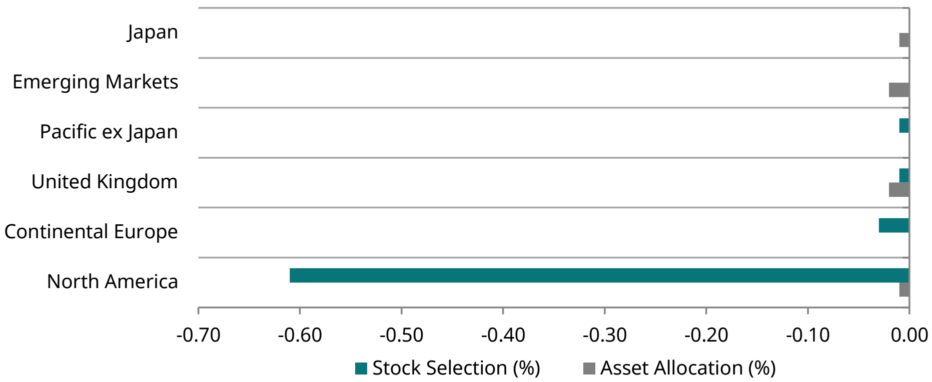
Attribution against MSCI World ex Tobacco NR NZD.

Sector
July 2024



Region
July 2024



The attribution analysis shown above is intended to provide an indicative summary of the contributions to relative performance. The information is generated using Aladdin, a multi-currency performance analytical system. The total estimated sector and region performance attribution is reconciled with and adjusted to the reported official relative return.

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Portfolio weights versus MSCI World ex Tobacco NR NZD.

Sector
As at
31 July 2024

Portfolio (%)	Index (%)		Active Weights
13.5	12.1	Health Care	1.4
6.9	5.7	Consumer Staples	1.2
8.5	7.7	Communication Services	0.8
16.2	15.5	Financials	0.7
10.4	10.4	Industrials	0.0
4.1	4.4	Energy	-0.2
25.1	25.5	Information Technology	-0.4
9.3	10.0	Consumer Discretionary	-0.8
3.1	3.9	Materials	-0.8
1.8	2.6	Utilities	-0.8
1.2	2.1	Real Estate	-1.0
0.0	0.0	Cash	0.0

Region
As at
31 July 2024

Portfolio (%)	Index (%)		Active Weights
76.3	74.7	North America	1.6
1.0	0.0	Emerging Markets	1.0
13.1	13.1	Continental Europe	0.0
5.7	5.9	Japan	-0.2
2.9	3.6	United Kingdom	-0.8
1.1	2.7	Pacific ex Japan	-1.7
0.0	0.0	Cash	0.0

As at
31 July 2024

Portfolio (%)	Index (%)		Active Weights
29.8	28.8	Super Mega (>US$500bn)	1.0
45.9	44.5	Mega (>US$50bn)	1.4
17.9	24.0	Large (>US$10bn)	-6.1
5.8	2.6	Mid (>US$2.5bn)	3.1
0.6	0.0	Small (>US$500mn)	0.6
0.0	0.0	Micro (≤US$500mn)	0.0

The difference between the portfolio and benchmark weights may not equal stated active weights due to rounding.

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