Schroders

For professional investors only

Schroder Sustainable Global Core PIE Fund

Q1 2025

Investment Report

This quarterly investment report is provided to you in supplement to your monthly performance report and other monthly investment reporting. It must be read in conjunction with your monthly performance report, which provides full details in a standard reporting format of the performance of your investment. This supplemental reporting is intended to provide you with an overview of portfolio activity during the period and should not be relied upon to make investment decisions or otherwise.

Q1/2025

Schroders

Schroder Sustainable Global Core PIE Fund

In this report

The Team

Portfolio Manager
QEP Investment Team
Tel: +44 20 7658 6000

Fund Performance (Unhedged)

Periods 31 March 2025

Total returns NZD	1 month %	3 months %	6 months %	12 months %	Inception % (pa.)
Fund at closing prices (net)	**-5.80**	**-3.16**	**10.63**	**13.03**	**24.59**
Benchmark^	-5.53	-2.99	9.99	12.78	23.92
Difference (net)	***-0.27***	***-0.17***	***+0.64***	***+0.25***	***+0.67***

Fund Performance (Hedged)

Total returns NZD	1 month %	3 months %	6 months %	12 months %	Inception % (pa.)
Fund at closing prices (net)	**-5.34**	**-2.92**	**-0.49**	**6.94**	**16.97**
Benchmark^	-5.06	-2.81	-0.95	6.82	16.68
Difference (net)	***-0.28***	***-0.11***	***+0.46***	***+0.12***	***+0.29***

Both funds inception date: November 30, 2023.

Source: Schroders, FundRock as of March 2025. Returns shown net of fees and are calculated by FundRock. Performance shown reflects past performance, which is no guarantee of future results. Current performance may be higher or lower than the performance shown. Principal value and investment returns will fluctuate so that shares, when redeemed, may be worth more or less than their original cost. Performance for all periods is shown cumulative. NAV performance may differ from performance calculated at closing market prices. The difference between the portfolio and benchmark returns may not equal stated excess returns due to rounding. Since inception from 30 November 2023. ^Benchmark is the MSCI World ex Tobacco NR NZD for the unhedged and MSCI World ex Tobacco NR NZD Hedged for the hedged. Indices are net dividend reinvested (NDR).

Summary

Even before the stark initial adverse reaction to Trump's tariffs in early April, it had been a challenging start to the year for global equity markets, particularly in the US where both the S&P500 and Nasdaq experienced their worst quarterly performance since 2022. The S&P also trailed the rest of the world by the widest quarterly margin in over a decade. The pro-growth trades that emerged around the US election went into reverse, as initial hopes for deregulation and tax cuts gave way to increasing concerns about tariffs and their potential economic impact. Guided by Trump's first term, this was not the order of policy priorities that investors had expected from the new administration.

The prior market darlings were at the forefront of the selling in the first quarter. All but Meta out of the Mag-7 stocks suffered double digit declines amid growing concerns about a slowdown in AI-spend. They were clearly the obvious source of profit taking as uncertainty spread. As such, market breadth continued to recover with around 60% of stocks outperforming in both the US and developed markets whilst the equally weighted S&P500 outperformed the standard cap weighted index by 3.6%.

The main beneficiary of the apparent reversal in American exceptionalism was Europe, particularly after Germany changed its constitution to permit a significant ramp up in defence spending. According to MSCI, European equity markets gained by 10.5% in the first quarter in dollar terms compared to a 4.6% decline in the US.

Whilst the period was notable for significant short-term swings in sentiment, the preference for defensiveness was clear. Staples, utilities and health care performed well but it would be wrong to characterise the first quarter's price action as a rush for the hills as cheaper cyclical stocks in financials and resources also gained. The broader trend was a rotation away from the dominant themes of last year (AI/tech), which were rich for profit taking, towards better value areas which also offered diversification. MSCI's World Value index gained by as much as 4.8% whilst its sister Growth index declined by almost 8%. It was also a poor quarter for sustainability focused investors as aerospace & defence stocks rallied by over 15% whilst tobacco was up by 21%.

Bond yields declined at an orderly pace whilst the VIX index averaged 18.5%, not materially higher than the average for 2024, albeit the trend was clearly upwards. Similarly, typical haven currencies such as the Swiss franc gained but not to the extent that indicated panic. The consensus was that that the quarter was more of a correction and that investors were still hoping that Trump's bark was worse than his bite when it comes to a potential trade war. This turned out not to be the case following the punitive tariffs subsequently announced on "Liberation Day" (2nd April) but as the quarter drew to a close, US growth forecasts were already being revised downwards (led by exports and investment) and the probability of recession was rising sharply.

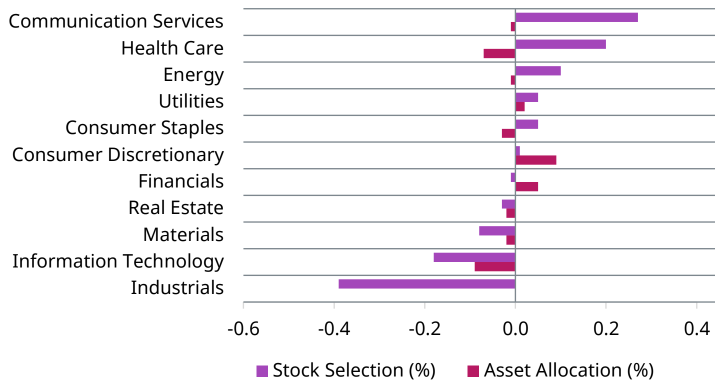
Market Summary and Performance Review

Following early-year optimism, global equity markets saw volatility return in Q1 on trade wars and geopolitical risks. As investors sought safe havens there was a flight to perceived defensives alongside the defence industry on expectations of more government spending. Against this backdrop, the portfolio finished the first quarter of 2025 modestly behind its benchmark. This was more than accounted for by the headwinds coming mainly from our avoidance of defence stocks. A key impact was from underexposure to names in Europe as the sector rallied hard on German plans to ramp up spending. We were able to partially offset the impact from our holdings in US counterparts.

Our exposure to traditional defensives also offered support. More specifically, overweight positions in select health care, telecoms and utilities were all beneficial over the quarter.

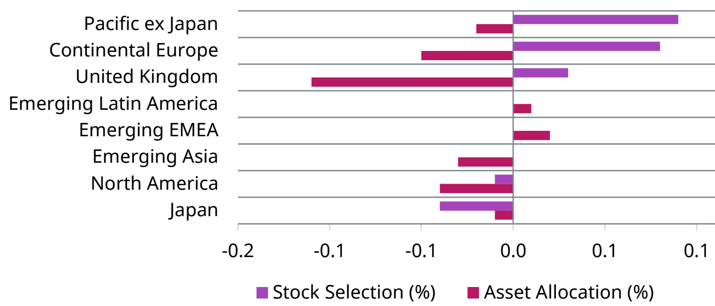
Relative Fund Performance vs MSCI World ex Tobacco

Sector
3 months to 31 Mar 2025



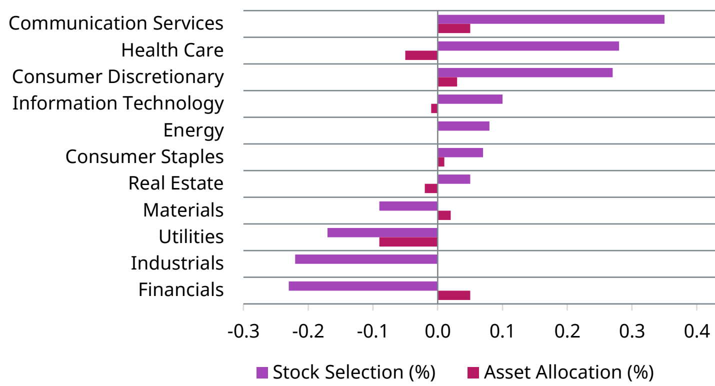
	SS (%)	AA (%)
Communication Services	0.27	-0.01
Health Care	0.20	-0.07
Energy	0.10	-0.01
Utilities	0.05	0.02
Consumer Staples	0.05	-0.03
Consumer Discretionary	0.01	0.09
Financials	-0.01	0.05
Real Estate	-0.03	-0.02
Materials	-0.08	-0.02
Information Technology	-0.18	-0.09
Industrials	-0.39	0.00

Region
3 months to 31 Mar 2025



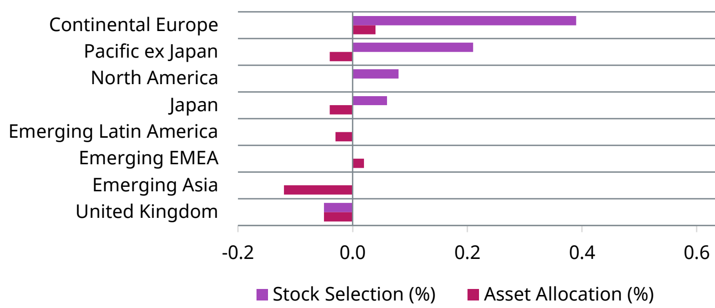
	SS (%)	AA (%)
Pacific ex Japan	0.09	-0.02
Continental Europe	0.08	-0.05
United Kingdom	0.03	-0.11
Emerging Latin America	0.00	0.01
Emerging EMEA	0.00	0.02
Emerging Asia	0.00	-0.03
North America	-0.01	-0.04
Japan	-0.04	-0.01

Sector
12 months to 31 Mar 2025



	SS (%)	AA (%)
Communication Services	0.35	0.05
Health Care	0.28	-0.05
Consumer Discretionary	0.27	0.03
Information Technology	0.10	-0.01
Energy	0.08	0.00
Consumer Staples	0.07	0.01
Real Estate	0.05	-0.02
Materials	-0.09	0.02
Utilities	-0.17	-0.09
Industrials	-0.22	0.00
Financials	-0.23	0.05

Region
12 months to 31 Mar 2025



	SS (%)	AA (%)
Continental Europe	0.39	0.04
Pacific ex Japan	0.21	-0.04
North America	0.08	0.00
Japan	0.06	-0.04
Emerging Latin America	0.00	-0.03
Emerging EMEA	0.00	0.02
Emerging Asia	0.00	-0.12
United Kingdom	-0.05	-0.05

Source: Schroders & Investment Team Classifications.

Portfolio Activity and Policy

With heightened uncertainly on the horizon driven by President Trump's tariff plans, we looked to position the portfolio accordingly. At a high level, we diversified exposures across both better value and higher quality areas with a focus on building a more defensive bias.

Net changes to positioning over the quarter followed several high-level themes: taking profits in the US across technology, rotating exposure into discounted quality cyclicals in Europe and increasing exposure to stable quality in appreciation of potential turbulence. Strong price moves and richer multiples encouraged profit taking in US technology, driven mainly by trimming names in application software which had performed exceptionally well on the back of recent AI driven enthusiasm. We rotated these profits into several areas across Europe and the UK. In Europe, we increased our exposure to diversified financials including both global banks with strong balance sheets alongside investment exchanges, which tend to benefit from periods of heightened volatility. Within industrials, we rotated positioning away from the US and into Europe, with the focus on high quality manufacturing and construction related industries.

We looked to bolster our exposure within defensives, with our broad view being a more volatile year ahead, adding to staples, communications and healthcare. More specifically we increased our exposure to European and UK telcos, pharmaceuticals, staple retailers and food manufacturers. Elsewhere, having previously neutralised our prior underweight to utilities, we continued to add to higher quality European names. We are now overweight the sector for the first time in many years.

At the end of the quarter, the largest portfolio overweights were within communications, financials and utilities. Our focus remains on targeting the best-in-class quality opportunities that trade on attractive valuations. Conversely, the key underweight in the strategy is now within consumer discretionary, with more modest underweights within real estate and staples where we are highly selective in our exposure. Finally, whilst we trimmed across technology, we remain broadly in line with the benchmark, focusing on companies with strong fundamental characteristics where valuations are still palatable.

From a regional perspective, the main increase in exposure was to Europe funded from a reduced allocation to the US, having taken profits following a stellar run over the prior two years. The strategy finished the quarter with Europe as the largest overweight, with underweights to the UK and Japan and a neutral position in the US.

Outlook

Global equity markets appear to be at an important turning point with much depending on how the uncertainty caused by Trump's tariff announcements will impact global growth. The tariffs announced after the end of the quarter (2nd April) were far more punitive than expected. The consensus had been for an effective US tariff rate of around 10% whereas the announced rate was closer to 25%, the highest US average tariff rate since the early 1900s. Whilst the tariffs were described as reciprocal in nature, they were devised using an unconventional approach based on the US trade deficit with its trading partners.

Global equities declined sharply in response before stabilising after President Trump announced a 90-day delay in their implementation. A rapid rise in Treasury yields appears to have led to the U-turn. At the same time Trump increased tariffs on goods from China to 125%, accusing Beijing of a "lack of respect" after it retaliated by saying it would impose tariffs of 84% on US imports.

There is still considerable uncertainty about the level of tariffs that will eventually be implemented. The focus has been on trade in goods, but this hides the fact that the US has a substantial trade surplus in services with most of its trading partners which regions such as the EU may choose to target. Whilst the early signs are that countries other than China are playing the long game, we are braced for months of back and forth as trading partners seek to reduce the potential damage and engage in specific negotiations for different industries. The process is likely to be both intricate and challenging.

Despite the reprieve, the probability of a recession in the US and in other major economies has risen, not least due to a loss of confidence due to the chaotic nature of US policy making. The stand-off between the US and China and blanket 10% tariffs also remains. Judging the impact on global growth by country is incredibly difficult as it will be determined by the respective economy's overall goods exports to GDP, the negotiated outcomes (if any), the availability of substitutes, and, crucially, currency movements. Perhaps even more importantly, the wider damage to corporate and consumer confidence will reinforce the existing downward momentum to global growth expectations. This may explain the initial adverse move in the US dollar, which has now given up its election inspired gains. Other things being equal, tariffs should have boosted the greenback due to the expected weaker demand for imports, resulting in fewer dollars getting swapped for foreign currencies.

Needless to say, it remains very uncertain what the year ahead holds. Before the reaction to “Liberation Day”, the S&P500 had ended the first quarter struggling to regain its 200-day moving average, which it had traded above for more than 330 consecutive sessions. There have only been a dozen occasions since the second world war when the US index had dipped below this average but then recaptured it and even then, the subsequent market outcome was muted.

Prior to the negative market reaction to the tariffs in early April, the size of the drawdown in the US index since it peaked in Feb was not out of kilter with the median annual drawdown of 10% experienced over the past four decades. However, a “correction” does not imply that US equities have returned to fair value. As at the end of Q1, the US was trading on a forward PE multiple of 20.5x compared to 13.7x for Europe and 13.3x for ACWI ex US. The same was true for equally weighted versions of these indices with the US ending the first quarter at a 35% premium to Europe and 38% premium to the rest of the world. The recent enthusiasm for non-US equities may well continue but it’s hard to shake off the likelihood that European markets will also struggle as the global growth outlook is revised lower.

It remains unusually unclear what the year ahead holds. All bear markets start with a correction (i.e. the index falling by more than 10% from its peak) but not all corrections turn into a bear market (a decline of more than 20%). Historically, a third of the over 30 corrections in the US market since 1945 have turned into bear markets. This will be of particular concern to those who like to draw parallels between the recent AI driven market with the dot.com boom and bust as the S&P500 fell by nearly 50% between March 2000 and October 2002 whilst the NASDAQ lost almost 80% of its value over the same period. The key differentiator was the subsequent path of the US economy. We don’t expect it to be any different this time. At a high level, we can characterise the first quarter as a correction from overbought levels caused by rising fears of a trade war. The likelihood that this correction evolves into a bear market will depend on whether a US recession can be avoided in the wake of the uncertainty caused by Trump’s tariff announcements.

The Fed is also unlikely to come to the rescue due to stubbornly high inflation, which will be exacerbated by the baseline tariffs. Monetary policy has not proved to be an appropriate weapon to fend off the threat of stagflation. So far, the soft economic data have turned down, but this has not yet been evident in the harder data although this is likely to change in the months ahead. How the announced tariffs impact the mix between growth and inflation is also highly uncertain so our best guess is that the path of least resistance for the Fed will be inertia. That said, the market expectation is for three cuts this year.

We should not read too much into the strength of the relief rally of 9th April. It's not unusual to observe powerful rally's even in a midst of a bear market (e.g. October 2008). In terms of whether equities can find solid ground from here, it is encouraging that even before the tariff announcement, investor cash levels were elevated, global growth expectations were falling rapidly, and global equity allocations had also declined. One catalyst for the market to make gains is the announcement of a raft of trade deals, leaning into the current market thinking that Trump is using tariffs as a bargaining tool. Other market friendly candidates are a swift announcement that tariff revenues will be used to fund significant tax cuts as well as a refocus on deregulation.

There is also the performance of the Magnificent-7 to consider given their dominant weight in the US index. Excluding the GFC period, the 10.4% drop in the Nasdaq in the first quarter of 2025 represented the 5th worst quarter since the dot.com bubble burst. Despite Goldman's rebranding them as the Maleficient-7, their earnings revisions remained robust in the first quarter but their reliance on non-US supply chains (Apple in particular) means that they are far from immune to the tariff fallout. So far, all but Meta have borne the brunt of market weakness this year which is not surprising given that this is where the gains had been the highest. Looking ahead, analysts are clearly more cautious on their fundamental outlook, particularly for Apple.

In terms of what all of this means for the market, all we can say is that there has clearly been a shift in the market's tone so far in 2025 and the only prediction we can make with any certainty is that volatility will remain elevated. Everything is likely to hang on whether the US manages to avoid a recession. Much has been written about the potential for either or of both a Trump-Put or a Fed-Put to come to the rescue. As noted though, the Fed is caught in the headlights and Trump seems less concerned about equities so early in his term. However, the power of the US Treasury market to provide a guardrail has already been demonstrated as it now appears that Trump has little tolerance for rising bond yields.

Being value conscious and looking for more opportunities outside the US seems sensible for diversification reasons but few areas will remain untouched by an escalating global trade war, and it is always best to remain focused on bottom-up stock fundamentals. Against the backdrop of scarcer growth, company quality will be prized, particularly for those with robust balance sheets that are also able to demonstrate margin stability. As such, we dialled up our defensive positioning during the first quarter across all our strategies. And of course, diversification will remain even more important during periods of elevated volatility. The increased likelihood of market overreaction, in either direction, is another source of opportunity that we intend to harvest.

Active Ownership

The QEP investment team works in close collaboration with Schroders' Sustainable Investment team to facilitate our engagement activity. Company engagements play an important role in our process, with the information gained key in helping to understand the sustainability issues corporations face and the specific strategies in place to address them. It also allows us to promote change and make clear our transition expectations for the companies in which we invest. The central store of engagement information available to us, covering all Schroders firmwide engagements, also provides useful qualitative information on issues that may otherwise be difficult to capture from traditional ESG data sources. Schroders' engagement blueprint includes six priority engagement themes capturing issues relating to environmental (climate change, natural capital & biodiversity), social (human rights, human capital management, diversity & inclusion) and corporate governance.

A range of companies held across the QEP investment desk were engaged with on various environmental, social and governance topics over the course of the first quarter. Social issues continue to be an important area of focus and we engaged with Howmet Aerospace on their supply chain and human rights risks. The company confirmed they use Ecovadis, an independent sustainability risk consultant, for supplier audits to help mitigate such risks. The company is also broadening its product safety disclosures and will be incorporating a new materiality map in their ESG reports to improve communication of their sustainability risks. We encouraged the company to continue expanding their disclosures but welcomed current developments which emphasize improving safety standards. Finally, Howmet confirmed they have grievance mechanisms for stakeholders and actively report on community grievances raised, primarily related to dust and noise pollution as a result of its operations.

We also engaged with Toyota on our blueprint theme of climate change as well as select governance topics. We discussed the company's increased move into hybrid and electric vehicles given growing demand in this space and their efforts towards achieving carbon neutrality. Toyota confirmed that they have already met their SBTi 2030 targets in their heavy freight trucks division and continue to focus on improving carbon emission reductions across their broad supply chain. The company noted the constant communication in place with suppliers regarding achieving their emission reduction targets. They also highlighted their commitment to reskilling their R&D staff, with a particular focus on software reskilling to further improve automation. We took the opportunity in this engagement to discuss the transformation of the Board of Directors and implementation of a new corporate governance model at Toyota. The company reduced the Board of Directors from 16 to 10, with an increased presence of outside directors and we will continue to monitor further developments in this area.

Our stewardship process extends to a proactive voting programme, a mechanism we leverage using the weight of Schroders' asset base and associated voting rights to drive our engagement priorities. We make considered use of our voting rights, acting in line with our fiduciary responsibilities in what we deem to be the best interests of our clients. As a firm, Schroders votes on all resolutions unless we are specifically restricted from doing so with all voting carried out by Schroders' corporate governance specialists. We voted at over 230 meetings on almost 2,500 resolutions for companies held across the QEP desk in the first quarter of 2025. Within these votes, around 11% were not with management. Votes against management were focussed on compensation plans, the election of directors or auditor related. For example, we voted against Italian bank Unicredit's remuneration proposal given another significant increase without reasonable justification to support this. We also voted against Costco's board proposal on gender diversity grounds with the Costco board lacking women on their executive committee.

Portfolio Characteristics at 31 Mar 2025

Characteristics	Fund	Index
Active Share	28.0%	
Weight in non-index stocks	4.3%	
Ex ante Tracking Error	0.9%	
Beta	1.00	
Number of stocks	482	1,347
Company Market Cap	665,143	653,461
Dividend Yield (Gross)	1.7%	1.8%
Carbon Intensity (CO_2 t/M$ Sales)	84.6	97.1

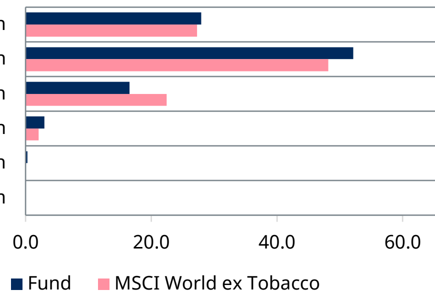
Source: Schroders & MSCI. Tracking Error is sourced from Aladdin.

Index: MSCI World ex Tobacco

Portfolio Analysis

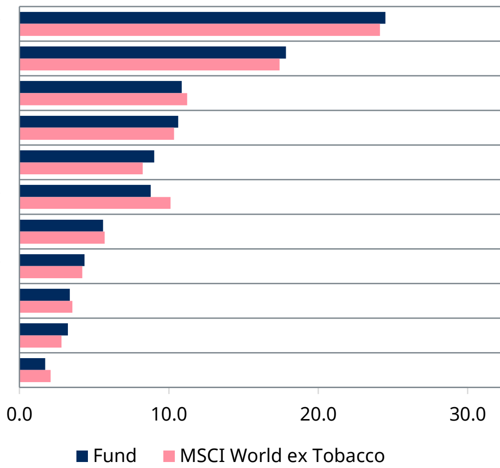
Portfolio Weightings
Market Capitalisation (%)
at 31 Mar 2025

	Fund	Index
Super Mega-cap >US$500bn	27.97	27.31
Mega-cap US$50bn to US$500bn	52.17	48.17
Large-cap US$10bn to US$50bn	16.53	22.43
Mid-cap US$2.5bn to US$10bn	2.97	2.07
Small-cap US$500m to US$2.5bn	0.28	0.00
Micro-cap <US$500m	0.00	0.00



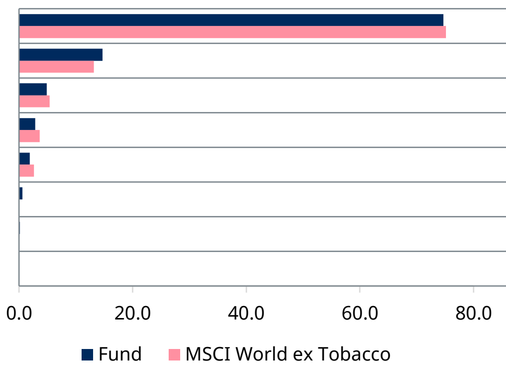
Sector (%)
at 31 Mar 2025

	Fund	Index
Information Technology	24.50	24.14
Financials	17.83	17.42
Health Care	10.87	11.22
Industrials	10.62	10.34
Communication Services	9.02	8.26
Consumer Discretionary	8.79	10.12
Consumer Staples	5.59	5.71
Energy	4.36	4.20
Materials	3.38	3.55
Utilities	3.25	2.81
Real Estate	1.72	2.08



Region (%)
at 31 Mar 2025

	Fund	Index
North America	74.68	75.12
Continental Europe	14.72	13.20
Japan	4.90	5.40
United Kingdom	2.88	3.64
Pacific Ex Japan	1.91	2.63
Emerging Asia	0.63	0.00
Emerging EMEA	0.17	0.00
Emerging Latin America	0.04	0.00



Source: Schroders & Investment Team Classifications

Notes

Responsible Investment: Schroders Socially Responsible Investment and Corporate Governance policies can be found on our website http://www.schroders.com/global/about-schroders/corporate-responsibility/responsible-investment/. We also publish regular articles on Socially Responsible Investing, which can be found on Schroders Talking Point www.schroders.com/talkingpoint.

Schroders