

# Schroder Sustainable Global Core PIE Fund

## Q4 2024 Investment Report

2024/24 Q

Schroders

**Schroder Sustainable Global Core PIE Fund**

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## The Team

Portfolio Manager  
QEP Investment Team  
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## Fund Performance (Unhedged)

Periods 31 December 2024

Total returns NZD	1 month %	3 months %	6 months %	12 months %	Inception % (cum.)
<b>Fund at closing prices (net)</b>	<b>2.79</b>	<b>14.24</b>	<b>14.90</b>	<b>35.97</b>	<b>38.44</b>
Benchmark <sup>^</sup>	2.86	13.38	15.43	34.03	37.21
<b><i>Difference (net)</i></b>	<b>-0.07</b>	<b>+0.86</b>	<b>-0.53</b>	<b>+1.94</b>	<b>+1.23</b>

## Fund Performance (Hedged)

Total returns NZD	1 month %	3 months %	6 months %	12 months %	Inception % (cum.)
<b>Fund at closing prices (net)</b>	<b>-2.17</b>	<b>2.49</b>	<b>5.85</b>	<b>22.45</b>	<b>26.95</b>
Benchmark <sup>^</sup>	-1.93	1.92	6.59	21.36	26.39
<b><i>Difference (net)</i></b>	<b>-0.24</b>	<b>+0.57</b>	<b>-0.74</b>	<b>+1.09</b>	<b>+0.56</b>

Both funds inception date: November 30, 2023.

Source: Schroders, FundRock as of December 2024. 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. <sup>^</sup>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

Despite a shaky final quarter, global equities secured a second successive year of strong gains in 2024 amidst a positive backdrop of a resilient US economy, robust earnings growth and Central Bank easing. However, the key theme by far was the ongoing enthusiasm around artificial intelligence. This provided a strong tailwind to the big tech stocks which in turn led the overall market higher. The outsized performance of the Magnificent-7, most notably Nvidia, continued to have implications for market breadth, as over two thirds of the stocks in the S&P 500 underperformed. It was a particularly difficult year for value focused investors who are unable to allocate to the big US stocks but, according to MSCI's style indices, outside of the US market, Value actually bettered Growth.

Largely thanks to the strength of US equities (MSCI US rose 24.6% in 2024 and now accounts for three-quarters of the MSCI World index), developed markets gained nearly 20% over the year (all figures shown in USD terms). The MSCI ACWI ex-US index posted a more modest increase of 5.5%, driven by Japan and the UK, as European stocks were flat. The MSCI Emerging Markets benchmark finished the year up 7.5% due to strength in Asia but was weighed down by a more challenging final quarter. Donald Trump's win in the US presidential election negatively impacted sentiment outside the US due to concerns about the impact of potential tariffs. It also propelled the US dollar even higher. The dollar index gained 7.6% in the final quarter to a 25-month high which had a notable detrimental impact on the USD denominated returns of other markets.

As the year drew to a close, global equities became more volatile. US equities initially reacted positively to Republican control of congress amid hopes their policies will support growth via tax cuts and reduce regulation. However, this was followed by a correction in December after the Federal Reserve indicated that sticky inflation reduced their scope to cut rates much further. Conversely, European and UK equities fell over the quarter driven by fears of recession and tighter fiscal policies respectively, as well as currency weakness. Japanese shares gained in local currency terms in the fourth quarter amid strong gains for financial stocks, but this was fully offset by a 9% fall in the yen.

## Market Summary and Performance Review

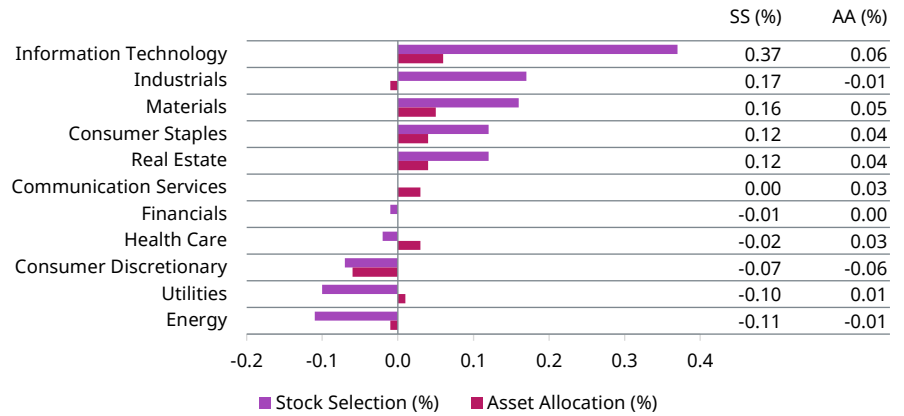
The strategy outperformed its benchmark in 2024, driven by strong stock selection from a variety of areas. However, a key positive contributor over the year was good stock selection within US technology, particularly our positioning within hardware and semis. Positioning in better value cyclicals was also a highlight in the second half of the year. Only partly offsetting these gains, the strategy experienced some headwinds from its exposure to higher quality European energy players which lagged.

In the final quarter, maintaining a balance between more affordable stocks and areas of higher structural growth was rewarded as the strategy finished the year on a firmer footing despite the more turbulent backdrop. A mix of both quality cyclicals (industrials – defence & aero) and attractive areas of structural growth (US application software) supported performance in Q4. Avoiding lower quality materials on the back of weaker commodity prices also contributed to relative performance. Detractors were limited, but a lower than index exposure to utilities was costly as the sector continued to perform well given the perceived increase in power demand from data centres.

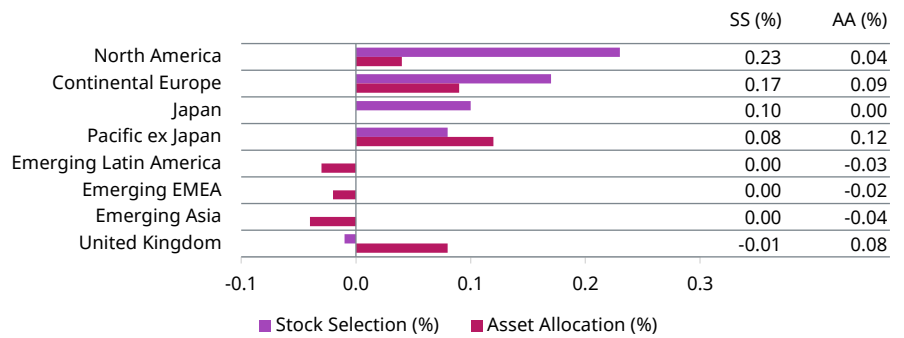
# Schroders Schroder Sustainable Global Core PIE Fund

## Relative Fund Performance vs MSCI World ex Tobacco

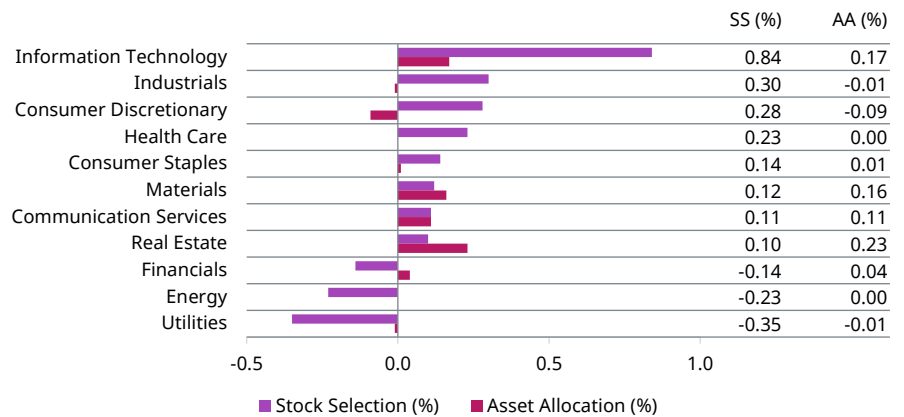
### Sector 3 months to 31 Dec 2024



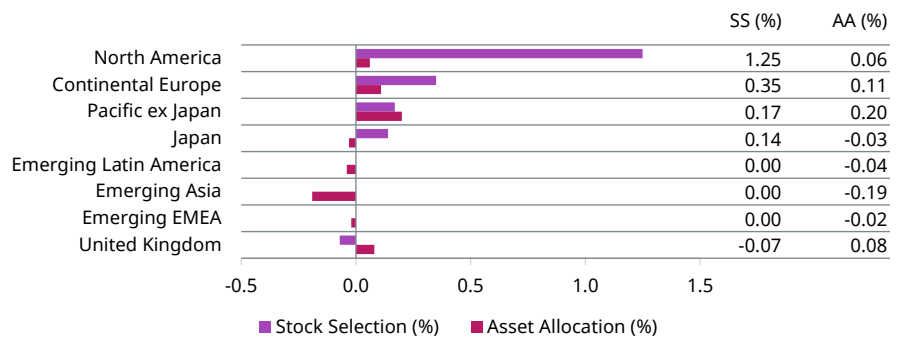
### Region 3 months to 31 Dec 2024



### Sector 12 months to 31 Dec 2024



### Region 12 months to 31 Dec 2024



Source: Schroders & Investment Team Classifications.

## Portfolio Activity and Policy

We continue to advocate a balanced approach, with exposure across areas of affordable structural growth, defensives and cyclicals so that the strategy is exposed to a range of themes across multiple facets of value and quality. We expect such diversification will reduce the risk of a single market environment significantly dominating relative performance and prepares the portfolio for any potential market volatility.

We remained diligent in profit taking during 2024, whilst taking advantage of wide performance dispersion to purchase or top up compelling options higher up the quality spectrum. Specifically, we harvested gains across technology, consumer discretionary and communications where performance was strong. Conversely as opportunities to purchase higher quality names at better entry points opened during periods of volatility, our process naturally repositioned. Notably, we added to higher quality cyclicals in banks and industrials, focusing on those with robust balance sheets. Whilst we continue to also favour traditional defensives, we rotated our exposures, adding to higher quality utilities, which as noted above are a beneficiary of the AI theme, funded in part from staples, due to our declining conviction in home products.

During the final quarter specifically, we exploited the end-of-year volatility by shoring up our allocations to the highest quality financials, industrials and technology names. We also continued to reduce positioning across health care and select staples. This was led in part by profit taking and M&A activity, and partly risk-reduction to reflect declining quality in pharmaceuticals in particular.

The strategy starts 2025 with a broad and diversified global exposure. Technology is the largest overweight, focused on stocks demonstrating stronger growth characteristics alongside palatable valuations within application software and hardware. We remain discerning in financials due to balance sheet considerations, with our holdings mainly in insurers and high-quality diversified banks. In industrials, we are very selective but favour manufacturing and business services. Regionally, our exposure remains consistent with an overweight to North America which still represents the best quality opportunities versus other developed and emerging markets. The UK, and Europe remain a source of funding as their fundamentals are less compelling and are potentially declining, whilst we retain a modest exposure to Emerging Markets Asia, primarily in technology and communications.



### Outlook

The current consensus is very firmly that the momentum behind equities will continue in 2025, albeit with less vigour. However, we should not be too sanguine about the resilience of most equity markets in the past two years. Plenty of good news is priced in which increases the risks of greater turbulence ahead with several potential catalysts. The incoming Trump administration is clearly a big wildcard in terms of setting the policy backdrop. Meanwhile, the Fed is unlikely to offer a clear pathway for monetary policy but a slower tempo of rate cuts in the US may not be a bad thing if it is driven by firmer growth rather than disappointment on inflation. Of the nine instances of short and small rate cutting cycles in the US since 1960, the market has on average risen by around 10% in the year following the first rate cut. There are two notable historical exceptions to this rosy scenario, as in both 1969 and 1976 equities fell sharply. The former was due to a recession whilst the latter was caused by the resurgence of inflation. It is a repeat of the late 1970s that we should be most concerned about.

These misgivings aside, there are reasons to be optimistic that the market can continue to rise this year, not least the good prospect of double-digit earnings growth in almost all regions this year and next. As well as being the most profitable, the US also stands out with robust eps forecasts even excluding the Mag-7.

Much has been written about the dominance of the big US stocks in the past decade which has led to a rapid rise in market concentration. However, the current high level of market concentration in the US is not unusual by historical standards or when assessed next to global comparisons. What should matter most to investors is mispricing rather than concentration. On this basis, we don't currently see strong evidence that a bubble has formed. Whilst it will be increasingly harder for the outperformance of the dominant stocks to continue at the same pace, US market concentration seems likely to persist for the time being. Of more interest is the greater scope for a rotation in market leadership away from the dominant themes of recent years.

Strong productivity growth in the US is often cited as the key driver of American exceptionalism. The evidence is clear that it has stood apart from the rest of the world over the past couple of decades and forecasts suggest that this will continue. The strongest argument for a reversal in US dominance is valuation based as the US market looks expensive both relative to other regions and its own history, regardless of the impact of the Magnificent-7 stocks. However, the elevated earnings power of US companies does appear to justify the gap. Nevertheless, much of the good news is

already discounted and the prospects for attractive opportunities elsewhere have increased, boosting the case for regional diversification.

Looking ahead, the prospects for cheaper stocks appear better than this time last year, mainly because they are not structurally challenged, and investors are increasingly looking for new opportunities outside of US mega caps. Reports of Value's death has been greatly exaggerated as outside of the US, Value actually beat Growth in 2024. A reversion to the longer run discount of value stocks to the market would imply strong relative gains, particularly if this is overlaid with a dual focus on both Value and Quality. We are less optimistic about small caps and emerging markets. Superficially, both groups appear cheap but the former face significant balance sheet risks whilst the latter is very dependent on China's management of its structural economic issues.

A strong US dollar will also weigh on the attractiveness of EM assets. In the short term, the greenback seems supported thanks to Trump's expected policies but longer term it will depend more on the progress of inflation and investor reaction to the country's deteriorating fiscal situation. It seems highly probable that the return to higher interest rates in the post COVID environment after years of ultra loose monetary policy is here to stay. This environment is likely to challenge poorly managed companies and necessitate strategic adjustments by investors, which is why we maintain a firm eye on balance sheet strength in our investments.

In summary, the investment backdrop is not that dissimilar to last year in that equity investors have had a relatively easy ride of late but there are plenty of sources of potential volatility ahead of us. Whilst valuations are not extreme, they leave little room for disappointment. After being caught on the back foot in 2024, market strategists are currently forecasting American exceptionalism to continue. We would suggest that there is scope for the market to broaden without necessitating a reversal in the recent dominance of large cap growth in the US but suspect there will be greater interest in diversification, particularly stocks with more defensive properties. Remaining diversified across the Quality spectrum with a firm eye on valuations will be key.

### 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 us to understand the sustainability issues corporations face and the

specific strategies they have 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.

Social issues continue to be an important area that we focus on. We engaged with several pharmaceutical companies on our blueprint themes of diversity & inclusion and human rights. Our communication with AstraZeneca is one recent example. The company is progressive in its approach to drug access which not only includes pricing initiatives but also diagnosis and healthcare infrastructure solutions. The company adopts a flexible pricing policy, recognising regional disparities in affordability while understanding the importance of diversity in clinical trials to further improve health access. AstraZeneca also highlighted the importance of their climate strategy and the engagement they conduct across their value chain to meet emissions targets and maximise resource use efficiency. Meanwhile, our engagement with Sanofi primarily focused on health security and governance. Regarding health security, Sanofi's efforts in combating antimicrobial resistance (AMR) was discussed with the company aiming for 100% compliance with the AMR Industry Alliance's Common Manufacturing Framework by 2025. Sanofi is also investing in the development of new antibiotics and therapies, with a significant portion of R&D focused on World Health Organisation (WHO) priority pathogens. On governance, executive remuneration was covered given our concerns over a lack of transparency which we communicated, with improvements having subsequently been made in Sanofi's disclosures. By way of a final example, our engagement with GSK focused on access to medicines and diversity in their clinical trials, discussing how the economic landscapes of different markets are considered. GSK confirmed access principles are considered throughout both R&D and product launch with patient access assessed alongside commercial returns. The company also noted their approach to partnering with external organizations for distribution to allow specific populations better access to medication.

We also engaged with South Korean semiconductor company SK Hynix on the topic of decarbonisation. The engagement focused on the company's progress in our request to set more ambitious 2030 emission reduction targets. The company highlighted challenges in achieving an absolute reduction due to increased production capacity, but noted an improvement in emission intensity was achievable. They aim to increase renewable energy usage from 30% to 33% by 2030 due to the construction of a renewable electricity plant planned for completion by 2027. The engagement also covered plans to expand the measurement of Scope 3 emissions, which are a significant contributor to the company's total emissions. Although the company has begun to disclose and measure more categories of Scope 3 emissions, they acknowledged a need to increase confidence in the reliability of the data before incorporating it into their Net Zero plan. We will continue to monitor developments but see the progress so far as positive.

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 200 meetings on over 1,500 resolutions for companies held across the QEP desk in the final quarter of 2024. Within these votes, around 13% were not with management. Votes against management were focussed on compensation plans, the election of directors or auditor related. For example, we voted against Cisco's remuneration proposal as the performance period for the long-term incentive is not sufficiently long. We also voted against Oracle's board election as the proposed director's board tenure is already excessive.

## Portfolio Characteristics at 31 Dec 2024

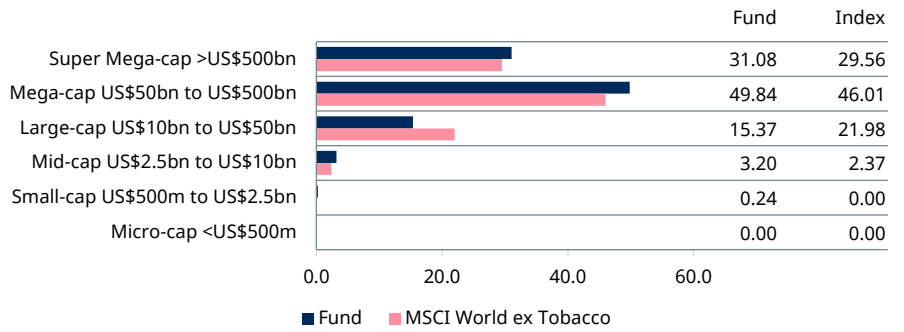
Characteristics	Fund	Index
Active Share	29.0%	
Weight in non-index stocks	4.3%	
Ex ante Tracking Error	1.1%	
Beta	1.02	
Number of stocks	454	1,390
Company Market Cap	848,261	817,918
Dividend Yield (Gross)	1.5%	1.7%
Carbon Intensity (CO2 t/M\$ Sales)	70.4	92.0

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

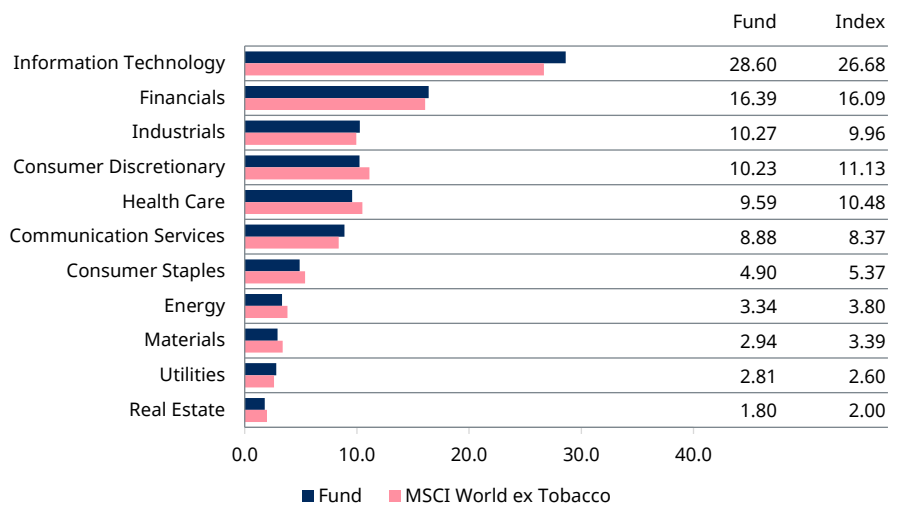
Index: MSCI World ex Tobacco

# Portfolio Analysis

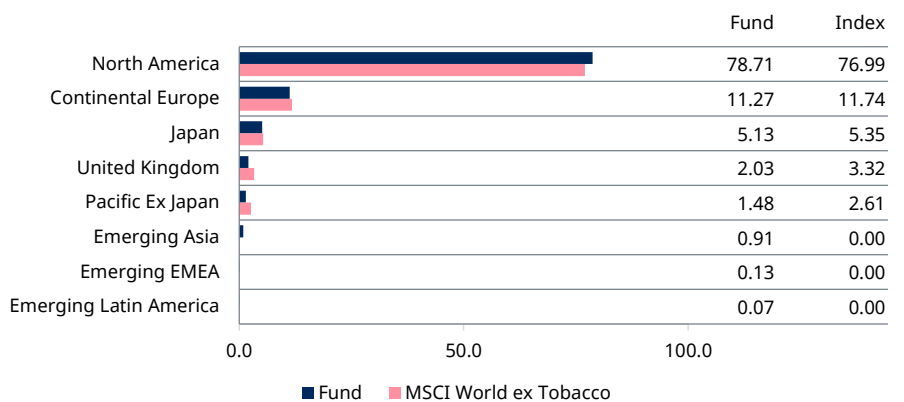
## Portfolio Weightings Market Capitalisation (%) at 31 Dec 2024



## Sector (%) at 31 Dec 2024



## Region (%) at 31 Dec 2024



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](http://www.schroders.com/talkingpoint).

## Important Information

FundRock NZ Limited (FundRock) is the issuer of Schroder Investment Funds (Scheme). The Scheme's product disclosure statement (PDS) is available from FundRock, and on the Disclose Register ([companiesoffice.govt.nz](http://companiesoffice.govt.nz)). The information contained in this document is not an offer of units in the funds within the Scheme, or a proposal or an invitation to make an offer to sell, or a recommendation to subscribe for or purchase, any units in the funds within the Scheme. Any person wishing to apply for units must complete the application form which is available from FundRock.

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