Schroders

Schroder Sustainable Global Core PIE Fund
Global Core Plus ESG

Monthly Report – February 2024

Performance to 29 February 2024

Relative to Benchmark^

Fund Performance - Unhedged

Performance - Rolling periods

Total returns (NZD %)	1 month	3 month	YTD	SI cum*
Portfolio (Gross)	5.80	13.14	11.40	13.14
Benchmark^	5.35	12.27	9.67	12.27
Excess (Gross)	+0.45	+0.86	+1.74	+0.86

Fund Performance - Hedged

Performance – Rolling periods

Total returns (NZD %)	1 month	3 month	YTD	SI cum*
Portfolio (Gross)	5.03	11.01	8.02	11.01
Benchmark^	4.72	11.10	6.68	11.10
Excess (Gross)	+0.31	-0.09	+1.34	-0.09

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. ^Benchmark is MSCI World ex Tobacco NR NZD.

Portfolio characteristics as at 29 February 2024

	Portfolio	Benchmark
Active share	40.7%	N/A
Number of stocks	406	1,474
Carbon intensity (CO2 t/M$ sales)	48.8	96.0
Beta* (ex-ante)	1.00	N/A
Tracking error* (ex-ante, p.a.)	1.50%	N/A
Portfolio size	NZ$164m	N/A

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

Market and portfolio commentary

Market review

Global stock markets rose in February with many countries posting strong gains (figures in USD), including emerging markets which were helped by a rebound in Chinese equities. By contrast, fixed income markets lagged with yields rising as investors pushed out the timeframe for central banks to cut interest rates. The Federal Reserve (Fed) held a policy-setting meeting at the very end of January, leaving interest rates unchanged and Fed chair Jerome Powell indicating that a March rate cut was unlikely. Data released in February did little to change that picture, releases generally demonstrating ongoing economic resilience lessening the need for near-term interest rate cuts. The European Central Bank (ECB) similarly downplayed the need for imminent rate cuts, as did the Bank of England, with central bank officials around the world seeking to avoid a scenario where rate cuts need to be reversed.

US equities rose strongly in February, supported by some well-received corporate earnings. These included good results from some of the so-called “Magnificent Seven” companies. Gains were led by the consumer discretionary, technology and industrials sectors, while defensive sectors including health care and consumer staples underperformed. Eurozone stocks also advanced but continued to lag gains made in US markets. As in the US, consumer discretionary, technology and industrials were the top performing sectors. Real estate, energy, utilities and consumer staples lagged posting negative absolute returns for February. Broadly, tech stocks globally continue to be buoyed by the enthusiasm surrounding AI and its use potential. UK equities were broadly unchanged over the month as the market continues to struggle for significant upwards momentum. Official data showed that the UK economy had entered a technical recession in the second half of 2023, further dampening investor confidence.

The rally of the Japanese equity market accelerated during February, with the Nikkei finally exceeding its all-time high set during the bubble era of 1989. Strong appetite for Japan from global investors has continued through 2024, driving this rally as the country benefits from a return to inflation and improvements to corporate governance in light of well received reforms. Strong performance has also been supported by earnings, with quarterly results stronger than expected.

Market and portfolio commentary (continued)

Market review (continued)

Emerging Asian equities also gained strongly in the month, with China, South Korea, and Taiwan amon the strongest markets. Share price growth in Thailand and Singapore, however, was more modest in February. South Korea was aided by an increase in exports that in February rose by 4.8% compared wit a year earlier, driven by strong demand for semiconductors. Taiwan similarly has benefitted from investor enthusiasm for AI-related stocks and technology companies. India, however, was a key laggar following stellar performance in 2023. Emerging EMEA posted positive returns in the month, aided by strong performance in Saudi Arabia and Qatar as well as Turkey & Poland while Latin America finished slightly down, dragged by declines in Mexico.

In terms of styles, growth stocks rose most strongly in February. MSCI's Growth indices, in both developed as well as emerging markets, comfortably outperformed their sister Value indices building on Growth's outperformance for the year though Momentum has been the style posting the strongest gains through 2024 to date.

Portfolio commentary

Continued US economic strength and resilient wage and employment trends have pushed out expectations for imminent, rapid rate cuts. In Europe, an improved economic outlook for Spain, France and Italy are offsetting continued weakness in the manufacturing heavy German market as a higher m of services and looser fiscal policy remain supportive; receding inflation pressure sets the stage for ECI rate cuts this year. Meanwhile, a solid earnings season saw US equities lead the way amongst develope market peers. Against this backdrop the portfolio finished ahead of the index in February.

The outperformance over the month continued be broad based in nature, as both our higher quality holdings alongside more affordable areas with solid fundamentals held up well. With a positive run of earnings behind them, contribution within technology was strong, as overweight positions across US application software, hardware and semis were again supportive. Elsewhere stock selection within industrials (e.g. freight) and staples (within food and drink manufacturers) was positive, while our continued aversion to the low quality and overindebted real estate provided a tailwind to relative performance. Though overall detractors were muted over the month, our allocation to resources, predominantly higher quality European energy names, provided a headwind as commodity exposed stocks continued their trend of weak performance.

At a high level, the strategy remains well diversified across stock, geography and sector with a continu 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 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 overweights in the strategy were within technology, financials and consumer staples, driven by higher than index exposure to application software, payments and home products 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 the US & Emerging Markets but is marginally underweight the UK & Japan. We maintain an underweight exposu to Continental Europe.

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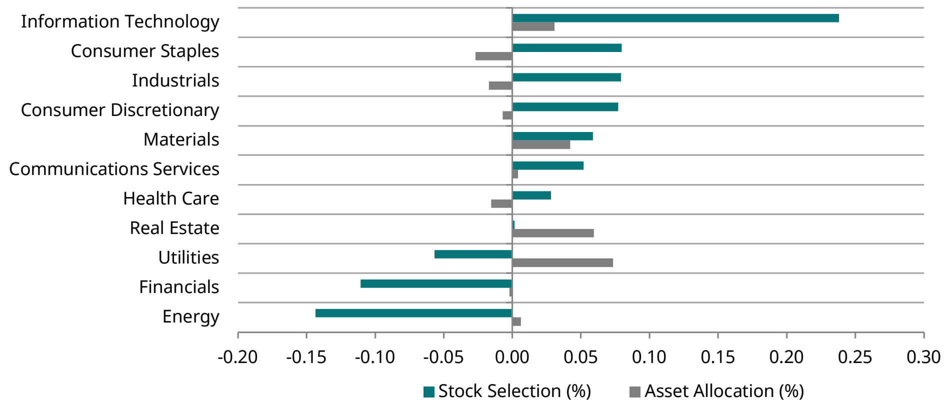
Portfolio weights versus MSCI World ex Tobacco NR NZD.

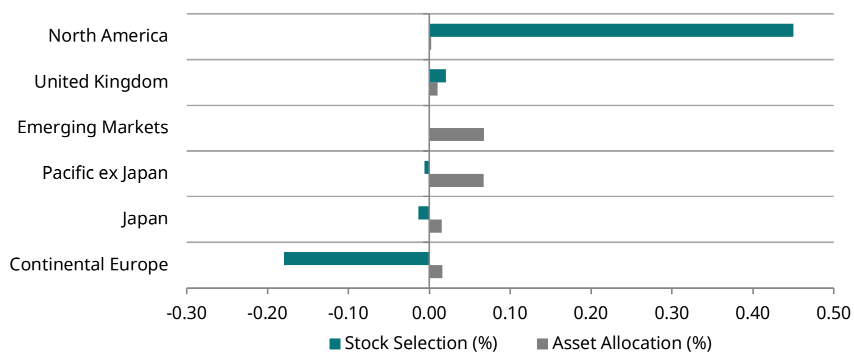
Sector

Dec 2023



Region

Dec 2023



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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Sector
As at
31 Dec 2023

Portfolio (%)	Index (%)		Active Weights
10.7	8.5	Insurers/Asset Mgt	2.2
9.3	7.8	Communication Services	1.6
26.0	24.6	Information Technology	1.5
13.1	12.2	Health Care	0.8
6.6	5.9	Consumer Staples	0.6
10.9	10.9	Consumer Discretionary	0.0
6.4	6.7	Banks	-0.3
4.0	4.3	Energy	-0.3
9.4	10.5	Industrials	-1.1
0.9	2.4	Utilities	-1.5
2.4	4.0	Materials	-1.6
0.1	2.2	Real Estate	-2.0
0.2	0.0	Cash	0.2

Region
As at
30 Dec 2023

Portfolio (%)	Index (%)		Active Weights
75.5	74.0	North America	1.5
1.5	0.0	Emerging Markets	1.5
6.4	6.2	Japan	0.2
3.3	3.5	United Kingdom	-0.2
12.0	13.6	Continental Europe	-1.5
1.1	2.8	Pacific ex Japan	-1.8
0.2	0.0	Cash	0.2

As at
30 Dec 2023

Portfolio (%)	Index (%)		Active Weights
28.1	24.8	Super Mega (>US$500bn)	3.3
45.5	46.8	Mega (>US$50bn)	-1.2
19.9	25.1	Large (>US$10bn)	-5.2
5.9	3.1	Mid (>US$2.5bn)	2.9
0.4	0.0	Small (>US$500mn)	0.4
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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