Schroders

Schroder ISF[1] Global Energy Transition
Product proposal

The proposed Schroder Global Energy Transition strategy

Objectives

The fund aims to provide capital growth by investing in equity and equity related securities of companies worldwide that the manager believes are associated with the global transition towards lower-carbon sources of energy. This will be achieved by the following:

i. Offering all investors **actively managed exposure** to the energy transition sector as the world shifts towards a lower-carbon energy system.

ii. **Outperforming** its stated benchmark over the long run.

iii. **Outperforming** competing funds over the long run.

Investment approach

Unconstrained thematic approach that transects traditional sector classification, style biases, geographies and market capitalisations.

Concentrated focus on finding long-term, **sustainable earnings growth** at a reasonable value.

Use of an **investment process established since 2005** and designed specifically for active investment management in commodities and resource equities.

Highly active allocation that creates opportunities to generate excess returns above passively-managed alternatives.

Long only, no leverage, no complicated derivatives.

Risk controlled through liquidity limits, the 5/10/40 concentration rule and use of cash.

Role in portfolios

As a long-term sustainable growth play that takes advantage of structural earnings growth over multiple business cycles.

As a source of equity diversification due to the agnostic approach taken to geographies, style biases and traditional sectors.

As a **thematic investment**, able to circumvent issues such as political and monetary policy challenges and tap into the growth sectors of the future.

- **Schroders' Global Energy Transition strategy** will aim to provide investors with a focused thematic exposure to the best performing companies involved in new clean energy systems as the world transitions to low-carbon power.
- **The fund uses a focused unconstrained thematic approach with a well-established investment process** to find the best companies across evolving value chains – similar to the process used for Schroder commodity and resource funds – using a combination of a GARP screen and DCF models.
- It seeks opportunities across a **diverse set of values chains within a broad but energy-focused investment universe**, including renewable power production, renewable energy equipment, transmission and distribution, energy storage, smart grid technologies and electric vehicle charging.
- The fund will adopt an **unconstrained thematic approach** that transects traditional sector classifications, style biases, geographies and market capitalisations. It has a **highly active allocation** that creates opportunities to generate excess returns above passively-managed alternatives.
- For our screening we will naturally **focus on companies that sustain a return on capital** that is higher than their cost of capital, but ultimately for shareholders to benefit from the energy transition over the next few years we have to see real earnings growth.
- Managed by a well established and dedicated commodities and resource investment team.

Mark Lacey, Head of Commodities and Resources, Fund Manager

Alex Monk, Global Renewables Analyst

Felix Odey, Global Renewables and Energy Analyst

[1]Schroder International Selection Fund is referred to as Schroder ISF throughout this document.

Leveraging established expertise and a proven investment process

Global Energy Transition universe ~2000 stocks 〉 **Focus list ~120 stocks** 〉 **SISF Global Energy Transition 30–50 stocks**

Screen universe

- Broad universe of companies exposed to the energy transition screened using descriptive and financial metrics
- Broad universe screened further based on revenue exposures, liquidity, size and country risk to find the best-in-class companies within key technology groups that are most exposed to the energy transition theme

Focus and build

- Create and maintain detailed financial models of focus list companies
- Monitor live valuations from focus list
- Fair value based on DCF is upside ranked
- Bespoke GARP screen used to find companies undervalued companies with strong growth potential
- Focus on companies with high returns on investment strong management and sustainable business models

Construct portfolio

- High conviction portfolio
- Global reach
- Unconstrained thematic approach
- No shorting or leverage
- No physical exposure
- Maximum cash 30%

The above refers to an example of the funds' key features and therefore is subject to change.
Source: Schroders – May 2019.

Capturing long-term real earnings growth opportunities

The energy transition has started – the adoption of renewable energy has only just started and is expected to accelerate given its cost advantage coupled with the increased focus on the reduction in carbon emissions.

The way we produce and consume energy is changing. This change is needed in order to significantly reduce carbon emissions and limit future global temperature rises to less than 2°C. There is now global recognition from governments, consumers and investors that the production of clean energy is essential for the planet. The other recognition is that the scale of the investment required to achieve the transition to more sustainable energy is in the trillions of dollars. Renewable energy and electric vehicles are only a part of the change, the way we use electricity, the way it is stored and how it is distributed needs to be updated and this requires significant investment.

The low-carbon energy transition will be hugely disruptive

New investment and earnings opportunities will come from three key structural trends

Decarbonisation of power generation

The share of electricity generated from renewables is expected to increase from 20% to closer to 85% by 2050 in order to reduce carbon emissions

Electrification of energy use

The share of electricity in final energy consumption is expected to increase from 20% to nearer 45% by 2050 due to the growth of electric vehicles

Increased efficiency

The energy intensity[1] of the global economy must fall by nearly two-thirds by 2050 to limit the growth in overall power consumption

[1]Energy intensity is the amount of energy needed to produce one unit of GDP.

Source: Schroders, IEA, BNEF, IRENA – May 2019.

The need to decarbonise is largely recognised as essential and the target of increasing renewable energy from 20% to 85% of the energy mix by 2050 is definitely achievable but requires significant investment.

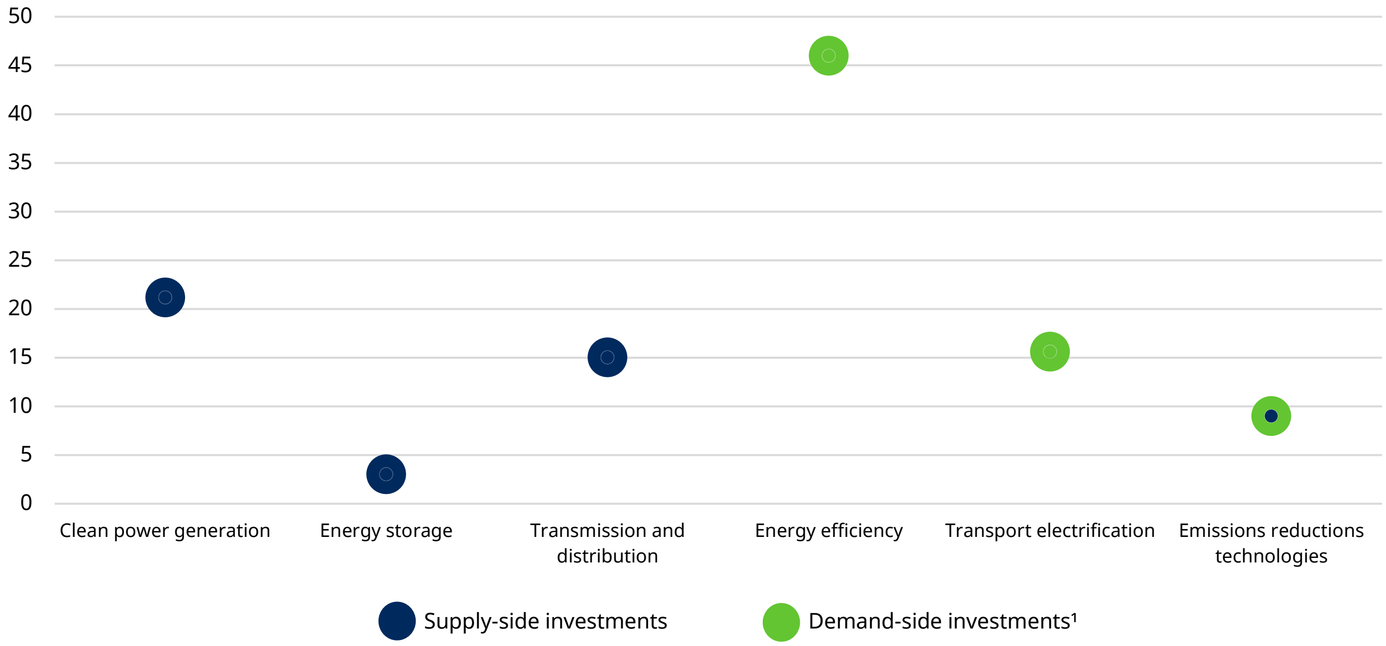
The energy transition investment opportunity is massive – US$120 trillion of investment in the energy transition is required by 2050 to meet globally agreed climate goals and growing consumer demand for clean technologies, creating strong real earnings growth opportunities for companies in this space.

Now is a great time to invest in the energy transition – investors have not missed out on this opportunity yet and significant inflection points have been reached in the last two years that are allowing company EBIT margins to finally start expanding.

The energy transition investment opportunity is massive

Realising the transition will require US$120 trillion of investment by 2050

Required cumulative investment in key energy transition sectors out to 2050 (US$ trillion)



[1]Estimated demand-side investments include end-user goods such as electric vehicles and more efficient appliances and industrial process. The fund will only invest in the sections of these markets directly related to the energy system, with the investment in these specific sub-markets only taking a share of the overall investment.

Source: Schroders, IEA, BNEF, IRENA – January 2019.

Role in portfolios

- As a long term, sustainable growth play that takes advantage of structural earnings growth over multiple business cycles
- As a source of equity diversification due to the agnostic approach taken to geographies, style biases and traditional sectors
- As a thematic investment, able to circumvent issues such as political and monetary policy challenges and tap into the growth sectors of the future

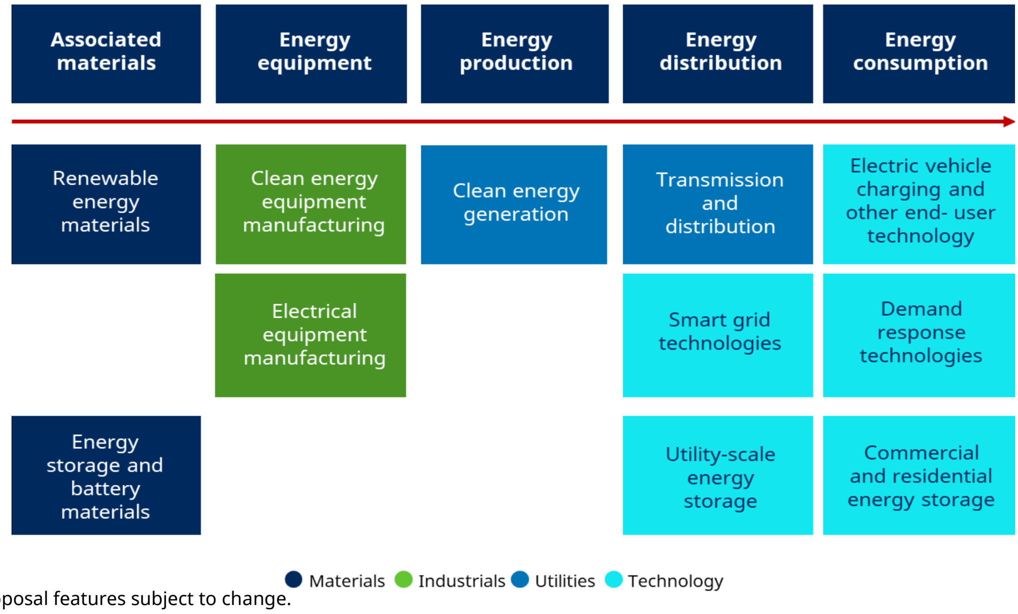
Investment proposal

Schroder ISF Global Energy Transition

Providing focused thematic exposure to the low-carbon energy transition

Seeking opportunities across key value chains, including renewable power and energy storage

Fossil fuel and nuclear free



Source: Schroders – May 2019. Investment proposal features subject to change.

The fund will not invest in companies with any exposure to fossil fuels or nuclear power as defined by MSCI.

Risk considerations

The counterparty to a derivative or other contractual agreement or synthetic financial product could become unable to honour its commitments to the fund, potentially creating a partial or total loss for the fund. The fund can be exposed to different currencies. Changes in foreign exchange rates could create losses. A derivative may not perform as expected, and may create losses greater than the cost of the derivative. Equity prices fluctuate daily, based on many factors including general, economic, industry or company news. The fund uses derivatives for leverage, which makes it more sensitive to certain market or interest rate movements and may cause above-average volatility and risk of loss. In difficult market conditions, the fund may not be able to sell a security for full value or at all. This could affect performance and could cause the fund to defer or suspend redemptions of its shares. Failures at service providers could lead to disruptions of fund operations or losses. The fund may be concentrated in a limited number of geographical regions, industry sectors, markets and/or individual positions. This may result in large changes in the value of the fund, both up or down, which may adversely impact the performance of the fund.

Issued in June 2019 by Schroder Investment Management (Europe) S.A., 5, rue Höhenhof, L-1736 Senningerberg, Luxembourg. Registration No B 37.799. Authorised in Luxembourg and regulated by the CSSF. Distributed in the UK by Schroder Investment Management Ltd, 1 London Wall Place, London EC2Y 5AU. Registration No 1893220 England. Authorised and regulated by the Financial Conduct Authority.