

Schroder ISF* Italian Equity

Fund Manager: Timothy Pedroni | Fund update: Q4 2024

Performance overview

- Italian equities gained slightly in Q4. The fund outperformed the FTSE Italia All-Share benchmark.

Drivers of fund performance

- Stock selection in the financials sector benefited relative returns in Q4, as did selection within energy. Stockpicking in industrials was a slight negative offset.
- Within financials, our holdings in banks **Banco BPM**, **Banca Monte dei Paschi di Siena** and **BPER Banca** were all among the leading individual contributors for the quarter. During the quarter, large cap Italian bank UniCredit made a takeover bid for Banco BPM and the news supported the share prices of other mid-cap Italian banks. In general, all Italian banks had good Q3 results in terms of their continued earnings resilience
- The leading individual contributor for the quarter was energy sector supplier **Tenaris**. It makes tubes for the oil industry and benefited from news of Donald Trump's election as US president. Trump is expected to enact policies which will be favourable for the energy sector, and Tenaris has a large US manufacturing presence which should see it emerge as a winner from any tariffs levied on imports.
- Elsewhere, sports betting group **Lottomatica** was another positive contributor. The gaming and sports betting markets in Italy are increasing in size and Lottomatica is the number one operator. We feel the share price is beginning to recognise the quality of the business.
- On the negative side, it was a weak quarter generally for small cap stocks amid low liquidity and some of the main individual detractors came from this segment of the market. These included **Ariston Holding**, **Sanlorenzo**, **Eurogroup Laminations** and **Intercos**.
- Ariston is a maker of heat pumps and gas heaters. Demand has been weak although data suggests that it may have reached a floor. Yacht maker Sanlorenzo saw its shares fall amid weaker orders across the industry ahead of the US election. Underlying performance is still good otherwise. Eurogroup Laminations is a maker of components for electric

vehicles and has come under pressure amid subdued EV demand. However, the company has a strong presence in China which is the key market where EV take-up is still growing strongly.

- During the quarter, portfolio performance was materially boosted by a tax rebate related to dividend paying Italian equity securities. Italy has for years imposed a dividend withholding tax on SISF Italian Equity which was higher than that imposed on domestic funds. Under European case law, Schroders and our advisers have successfully argued that this is contrary to the European Directive principles of freedom of establishment and freedom of capital.

Portfolio activity

- We initiated a position in **DiaSorin** during the quarter. This is a company we have owned before but sold in the wake of an acquisition that we felt would be disruptive to the business. The merged business has now been absorbed and the company can refocus on growing earnings once more.
- Another new holding is **TXT e-solutions**. It is an IT solutions provider with exposure to the defence sector, which is benefiting from European-led investments. It offers its own products as well as system integration platforms.
- A third new position cement producer **Cementir**. We see it as a high-quality business that is the greenest cement producer in Europe. It has exposure to the Belgian and Danish markets as well as Italy.
- We exited **Unieuro** during the period after the company was subject of a takeover bid.

Outlook/positioning

- Markets are waiting for Donald Trump to assume the US presidency and offer clarity on policies such as trade tariffs. This is key to the outlook for exchange rates and the impact on Europe and China.
- Europe can draw some relief from the moderation in inflation and falling interest rates.
- The portfolio remains focused on businesses with sustainable long-term earnings growth. We continue

to believe that the small and mid-cap space is an area with rich opportunities to find such earnings growth.

Past performance is not a guide to future performance and may not be repeated. The value of investments and the income from them may go down as well as up and investors may not get back the amount originally invested.

Calendar year performance (%)

Year	Fund	Target	Comparator
2024	17.6	18.1	13.1
2023	24.1	32.3	22.0
2022	-14.0	-10.3	-13.3
2021	29.0	27.9	31.0
2020	1.7	-3.5	-4.1
2019	28.7	32.5	25.8
2018	-19.1	-13.9	-16.1
2017	21.3	19.1	20.8
2016	-8.1	-6.4	-8.1
2015	22.8	18.5	21.0

Source: Schroders, as at 31 December 2024. Fund performance is net of fees, NAV to NAV with net income reinvested, EUR C Acc shares. Please see factsheet for other share classes. Target benchmark is FTSE Italia All-Share TR and comparator is the Morningstar Italy Equity sector. The fund's investment universe is expected to overlap materially with the components of the target benchmark. The comparator benchmark is only included for performance comparison purposes and does not determine how the investment manager invests the fund's assets. The investment manager invests on a discretionary basis and is not limited to investing in accordance with the composition of the target benchmark.

Risk considerations

Liquidity risk: 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.

Operational risk: Operational processes, including those related to the safekeeping of assets, may fail. This may result in losses to the fund.

Currency risk: The fund may lose value as a result of movements in foreign exchange rates.

Concentration risk: 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.

Derivatives risk: Derivatives may be used to manage the portfolio efficiently. A derivative may not perform as expected, may create losses greater than the cost of the derivative and may result in losses to the fund.

Counterparty risk: The fund may have contractual agreements with counterparties. If a counterparty is unable to fulfil their obligations, the sum that they owe to the fund may be lost in part or in whole.

Higher volatility risk: The price of this fund may be volatile as it may take higher risks in search of higher rewards.

Performance risk: Investment objectives express an intended result but there is no guarantee that such a result will be achieved. Depending on market conditions and the macro economic environment, investment objectives may become more difficult to achieve.

IBOR: The transition of the financial markets away from the use of interbank offered rates (IBORs) to alternative reference rates may impact the valuation of certain holdings and disrupt liquidity in certain instruments. This may impact the investment performance of the fund.

Market risk: The value of investments can go up and down and an investor may not get back the amount initially invested.

Sustainability risk: The fund has environmental and/or social characteristics. This means it may have limited exposure to some companies, industries or sectors and may forego certain investment opportunities, or dispose of certain holdings, that do not align with its sustainability criteria. Therefore, the fund may underperform other funds that do not apply similar criteria. The fund may invest in companies that do not reflect the beliefs and values of any particular investor.

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