

## Schroder ISF\* Italian Equity

Fund Manager: Timothy Pedroni | Fund update: Q3 2025

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Performance overview

- Italian equities made strong gains in Q3. The fund outperformed the FTSE Italia All-Share index.

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Drivers of fund performance

- High quality mid-cap bank **BPER Banca** was the leading contributor to relative returns over the quarter. The bank reported a solid H1 2025 release and made the last conclusive step towards the acquisition of the local bank BPSO. Despite operational, financial and strategic achievements over the quarter, BPER still trades at an attractive valuation relative to industry peers.
- Also, within the finance industry, **Banca Mediolanum** was another significant contributor. The asset gatherer continues to grow AUMs and acquire new customers, expanding market share within the Italian savings pool. Lastly, being inherently more exposed to capital markets than peers it has benefitted from buoyant markets during the quarter.
- Active stock picking and a concentrated portfolio were also contributors to the performance, within the Italian Financials industry the lack of exposure to Mediobanca, which performed poorly in Q3, helped and, within other sectors, the lack of exposure to names like Amplifon, Snam, further aided relative returns.
- Italian electric motor component maker **EuroGroup Laminations** was also a key contributor; the company received a take private bid from an Asian private equity firm at a significant premium.
- Looking at the bottom contributors, consumer facing names have struggled during the quarter. Gaming and sports betting operator **Lottomatica** was the leading individual detractor in Q3 as it navigated through an important regulatory change. It is one of our highest conviction holdings in the fund and we remain convinced that it possesses the best business model and will continue to gain share and compound growth.
- Beverages firm **Davide Campari Milano** was also among the detractors as the company fell with the broader wine and spirits sector, now in its 3<sup>rd</sup> year of underperformance. We remain confident the Campari has the best portfolio, management and strategy to outperform the sector and the broader market in the longer term.

- Also among the detractors was IT services firm **Reply**. This is a high-quality firm with exposure to AI implementation across Europe and US. It has a long history of significant top line outperformance vs peers, yet it has been de-rating in line with the rest of the sector as the market sanctioned it as an “AI loser”. We are convinced that this is not the case and remain invested.

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Portfolio activity

- A new position in the fund is off-benchmark name **Ferrari Group**. The company's management, ownership and history are rooted in Italy, but the firm is listed in the Netherlands. It is the global leader in the provision of logistical services for the high-end jewellery masons, positioning the company in a unique and niche market with high barriers to entry and large, sustainable economics.
- Also new within the fund is Europe's largest free to air TV broadcaster **MFE – MediaForEurope**. The company is undergoing a significant business model transformation, in the quarter it has acquired in the control of German broadcaster ProSiebenSat.1, de facto doubling their daily viewership. We feel the share price fails to recognise the strategic change and the complexity of the deal and the execution risk represent an opportunity to build a position.
- A key success story for the fund is our exit of the Italian small cap truck company **Iveco**. The company has agreed the sales of both its defence business to Rheinmetall/Leonardo along with its truck business to Tata Motors. This has effectively put a reasonable value on both businesses and has performed extremely well this year. The company is an example of a self-help business within the small & mid-cap space which has streamlined and divested its operations effectively. There is only a minimum of upside left and so we have sold the position entirely.
- We have also sold out of our position in **Ariston Holding**. The company is a well invested industrials business producing mostly gas and electric heat pumps. Its residential end market for heat pumps is taking longer than expected to correct post-COVID, and so we have sold the position to pursue other opportunities.
- Also, among the sales was **Italgas**, Italy's largest gas distribution network. The company made a large acquisition earlier this year, and the share

\*Schroder International Selection Fund is referred to as Schroder ISF throughout

price has reacted – reaching fair value in our view and so we have sold the position.

## Outlook/positioning

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- Italy has been enjoying a period of strong momentum and has seen a lot more stability from a political standpoint, along with a tightening in the cost of funding relative to the rest of Europe. This has been a very positive environment for Italian equities, and we expect to see this trend continue for the next few quarters.
  - Within Europe more broadly, the summer months have been a period of digestion – we’ve seen relatively calmer markets that have gently been rising over the quarter. Expectations to accelerate growth have come true, especially in Germany. The German budgetary confirmation and increases into 2026 should have a positive spillover effect into the rest of the region. Some big defensive laggards are beginning to bounce back as the market broadens out. Large caps have rerated, but there’s nothing that really changes the opportunity set and interest rate environment which is very pro-growth. We thus believe small and mid-caps still offers a great opportunity.
  - Europe remains at an advantage vs. other regions with tailwinds in both fiscal and monetary terms contrasting heavily with the US who are seeing headwinds. This is aiding the economic momentum of Europe and makes the region very attractive.
  - 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.
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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

**Capital risk / distribution policy:** As the fund intends to pay dividends regardless of its performance, a dividend may represent a return of part of the amount you invested.

**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.

**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.

**Currency risk:** If the fund's investments are denominated in currencies different to the fund's base currency, the fund may lose value as a result of movements in foreign exchange rates, otherwise known as currency rates. If the investor holds a share class in a different currency to the base currency of the fund, investors may be exposed to losses as a result of movements in currency rates.

**Derivatives risk:** Derivatives, which are financial instruments deriving their value from an underlying asset, may be used for investment purposes and/ or 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.

**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, meaning investors may not be able to have immediate access to their holdings.

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

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

**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.

**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 chosen by the investment manager. The fund may invest in companies that do not reflect the beliefs and values of any particular investor.

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