Schroders

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Schroder ISF* Italian Equity

Fund Manager: Timothy Pedroni | Fund update: Q1 2025

Performance overview

– Italian equities made strong gains in Q1. The fund also posted a double-digit return but slightly lagged the benchmark's advance.

Drivers of fund performance

– Stock selection in the financials sector was the main reason for the slightly weaker relative performance. The banking sector was a very strong performer in the quarter, including the large cap banks **UniCredit** and **Intesa Sanpaolo**. Our holdings in these banks are limited to 10% each, which is below their weight in the benchmark. Both were therefore among the detractors from relative returns, given this below-benchmark weighting.

– Other key detractors from relative returns were largely small caps, including **Sanlorenzo**, **BFF Bank** and **Intercos**. Smaller companies continued to underperform large caps during the quarter. Sanlorenzo's most recent update indicated some signs of slowing momentum, but there is nothing fundamentally wrong with any of these businesses.

– One small cap holding that gave a weaker update in the quarter was **EuroGroup Laminations**. It has exposure to the automotive sector, notably electric vehicles, which is a segment that is experiencing a difficult period both due to competition and tariff concerns.

– On the positive side, the leading individual contributor to relative performance was betting and lotteries operator **Lottomatica**. It released good full-year 2024 results and had a positive Q1 operationally, gaining operating momentum and market share. There is greater liquidity in the stock now with a private equity owner selling its stake and the market is responding positively.

– Carmakers **Ferrari** and **Stellantis** were both among the main contributors. We have an underweight holding in both. The automotive sector underperformed in the quarter amid worries over the impact of tariffs. Stellantis has large exposure to the US market. Ferrari shares were also affected by the de-rating of luxury goods stocks.

– Our holding in aerospace & defence group **Leonardo** added value. The European defence sector was very strong in the quarter as it became clear that Europe will need to be more self-reliant in defence, and as Germany relaxed its debt brake to enable greater spending on both defence and infrastructure.

Portfolio activity

– We initiated a new position in asset manager **Mediolanum**. We still have significant exposure in banks but wanted to diversify our overall financials exposure. At a time when the European Central Bank is lowering interest rates, cash becomes less attractive and asset managers should benefit as individuals move their savings from cash into investments, which bring in fee income. We see Mediolanum as a dynamic and well-run business.

– We sold out of **Recordati**. We still like the business but the main shareholder is a private equity firm which is looking to exit. We think the sale could weigh on the shares for many months.

– We also exited the small remaining position in telecom towers business **Inwit**. We allocated the proceeds to other infrastructure holdings in water and electricity.

Outlook/positioning

– The start of the second quarter has brought the announcement of significant trade tariffs from the US. At the time of writing, many of these, including on the EU, have been paused for 90 days. The important thing now is to understand how the new regime for global trade will operate, the impact of regional GDP growth, and what it means for consumer sentiment. At the same time, Europe and China had already announced stimulus measures (such as the defence and infrastructure spending in Germany). It remains to be seen the extent to which this stimulus can help offset damage from trade tariffs.

– 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.

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

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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