

Schroder ISF* Italian Equity

Fund Manager: Timothy Pedroni | Fund update: Q2 2024

Performance overview

- Italian equities fell in Q2. The fund underperformed the FTSE Italia All-Share benchmark.

Drivers of fund performance

- Positioning in the energy and financials sectors weighed on relative returns in Q2. **Tenaris**, a supplier of steel tubes to the energy industry, was the main individual detractor from relative returns. The company had a poor quarter amid lower reference prices for tubular goods in the US. We think we are near the bottom of the cycle and a rebound in pricing should soon come through. We view Tenaris as a high-quality company.
- **Ariston Holding**, a manufacturer of heating equipment, including heat pumps and gas boilers, was also among the detractors. Subsidies for heat pumps have been reduced or removed in several countries and the sector remains oversupplied. We have resized our position.
- Among financials, **BFF Bank** weighed on relative returns. The shares reacted negatively to news that the Bank of Italy had asked BFF to increase its risk weighting to some assets which could affect the capacity to distribute dividends. We think this will be a temporary measure and expect the business to remain the same.
- Underweight positions in large cap firms **Enel** and **Generali** also weighed on relative returns. We have increased the weighting to both companies as part of a more benchmark-aware approach, initiating the position in Generali during the quarter to increase exposure to financials.
- On the positive side, cosmetic contract manufacturer **Intercos** guided for a rebound in demand. There are signs of recovery after a few years of destocking. Consequently, the fund's performance was positively influenced by these developments.
- **LU-VE**, a manufacturer of sustainable heat exchangers, also added value. It is very diversified in terms of its exposure to different markets and geographies and is benefiting from a cyclical rebound.

- In the digital services sector, **Reply S.p.A.** was a positive contributor. The company reported a strong Q1, with robust organic growth. Reply is a new position and offers high-quality exposure to AI.

Portfolio activity

- We exited **doValue SpA**, a credit servicer. The company is going through a refinancing process which could potentially impact both equity and debt.
- Renewable fuels specialist **Neste Corporation** was another sale. The sector is experiencing a difficult period and we elected to sell ahead of any further contraction in refining margins.
- A new position is **Technoprobe**, which we have added to increase the portfolio's exposure to the semiconductor cycle.
- We also initiated a position in **Technogym**, which has been through a phase of investment and is now poised to reap the growth benefits. We see it as a high-quality consumer name.
- We also added six micro-cap names to the portfolio (**Gefran, B&C Speakers, Unieuro, EuroGroup Laminations, Antares Vision, Philogen**). These are all PIR-compliant companies introduced to substitute Piovan which is not compliant anymore.

Outlook/positioning

- The global economy appears to be heading for a soft landing, with the US in particular proving resilient in terms of growth. Growth in Europe has been slower. The European Central Bank cut interest rates in Q2 but it remains to be seen whether inflation will fall to a level enabling further cuts.
- We agree with the view that the business cycle is reaching the bottom for cyclical businesses, such as industrials. However, there is little visibility on when a sustained recovery might come.
- We have evolved the portfolio over the quarter to become more benchmark aware. However, 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
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
2014	2.1	2.3	0.7

Source: Schroders, as at 31 December 2023. 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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