

## Schroder ISF\* EURO Equity

Fund Manager: Martin Skanberg | Fund update: Q2 2025

## Performance overview

- Eurozone equities advanced strongly in Q2. The fund materially outperformed the benchmark's strong gains.

## Drivers of fund performance

- It's been a volatile and uncertain Q2 period, however European markets have demonstrated resilience and continue to outperform global peers. Stock selection and allocation to aerospace and defence names have been key drivers to the fund's performance.
- German defence name **Hensoldt** was the top performer for the quarter and continues to be geared towards what are likely to be fast growing areas in defence electronics and surveillance equipment with German defence spending rising rapidly amongst key European governments.
- In a similar vein, UK small cap defence company **Chemring** also aided relative performance. A recognised shortage in air defence stock and capacity in both the UK and Europe along with escalating tensions and conflict in the Middle East have increased investor sentiment towards the firm. The recent NATO summit in June has also contributed to the heightened sentiment as participating countries are agreeing to increase defence budgets to 5% of GDP. While we remain invested, we have rotated some of our allocation away from larger defence names in favour of Chemring which not only stands to benefit in the current environment but is also trading at a discount to some of its larger name peers.
- Alongside Chemring, our other aerospace and defence exposures also aided relative performance on boosted sentiment in the form of **MTU Aero Engines**, **Airbus** and **Saab**.
- Within technology our holding in **Indra Sistemas** outperformed. The company has exposure to both IT security and defence electronics and sits in a promising position to benefit from the increased European defence spending.
- The fund's underweight exposure to the consumer discretionary sector also added value. Luxury goods continue to perform poorly as the sector is facing earnings pressure and weak discretionary spends in both China and the US. As a result, our holding in **Moncler** was a detractor, but this was offset by our

overall underweight allocation to the sector. Despite sector headwinds, we believe there is emerging value in luxury names, and we are monitoring them closely.

- On the negative side, technology firm **Temenos** was the main individual detractor. The firm was weak on slightly lower license sales of software in Q1 and there was some slippage in sales from late March into April due to software signing delays. Despite this, it looks promising that the company should bounce back.
- Our gains in the industrials sector, through either our broad range of direct or indirect exposures were only partially offset by lack of ownership in Rheinmetall – a German defence munitions company not held that performed well.
- Elsewhere, relative gains were partially offset by our underperforming position in **Philips** which was among the limited number of key detractors as the company's Q1 results were below expectations.

## Portfolio activity

- A new position in the fund is German bank **Deutsche Bank**. We've recognised the positivity in European banks, with interest rate sensitive banks performing extremely well under higher rates. Rate expectations however are reducing which has prompted us to be more selective in our choice of banking exposures, favouring capital market and trading orientated exposures. Deutsche Bank has had a disproportionate amount of cost cutting with strong capital ratios, its valuation and yield is also now more attractive vs. peers.
- Another new holding is **Cellnex**. Cellnex is Europe's largest cell tower operator and runs similarly to our existing holding in Italian firm INWIT. The company has a relatively stable and predictable business model which is shielded from tariffs. The company was previously overleveraged in a high-interest rate environment, but they have made efforts to de-leverage and are in a position to reinstate dividends and share buybacks. The company is a contractual utility firm and there may be scope for future M&A with regional investors in the US showing interest.
- Also, a new position in the fund is Danish pharmaceutical firm **Novo Nordisk**. The company has completely fallen out of favour with investors but continues to be a leader in the weight-loss and

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insulin space. The company has historically traded at a growth premium to the market but is now at a market multiple. We think that this could be a mispricing opportunity and potential for upward growth. There is an upcoming clinical readout on CagriSema, one of the firm's weight-loss products which was previously deemed to be unsuccessful in its previous results but was perhaps miscommunicated. Positive results for the product in the next read out should support growth.

- A small new position in the fund is German medical and drug delivery company **Gerresheimer**. After a series of profit warnings that have left the share price very depressed, we have initiated a position on optimism for a medium-term opportunity in a strategically attractive sector. The company is an important supplier of medical devices and cosmetics packaging, the latter of which has been attributed to the firm's recent difficulties with low demand seen across the beauty consumer segment. The company's low valuation explained by softer current trading and leverage leaves the business susceptible to future M&A activity.
- Another new position is German warehouse automation and industrial forklift company **Jungheinrich**. This is a high-quality warehouse logistics company that stands to benefit as investments in logistics and materials handling is rising again. Order books are growing for automation, and the firm is pushing aggressively into North America and Asia Pacific as it attempts to be more assertive in taking market share. The firm is already big in Germany, and Europe more broadly, and stands to benefit from the region's current fiscal stance.
- We have exited our position in **Fresenius SE**, the parent company of our continued holding in Fresenius Medical Care. Fresenius have been reframing the company over the last few years and have successfully simplified the structure of the firm. We have now switched to a preference for the underlying medical company as we believe the parent company has reached its potential. We have therefore sold our position to fund elsewhere.
- We also have sold out of our position in **Tele2**. Tele2 has seen strong recent performance and paid

a high dividend in May. The company has recently seen a change in management and a step up in cost cutting measures. We also decided to take profits here to make room for other investments.

- We have also exited the last of our small position in **Ariston Holding**. Energy regulation in the US isn't progressing as cuts to key bills have hurt more energy efficient players like Ariston.

## Outlook/positioning

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- Economically, 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 momentum of Europe and makes the region very attractive. Germany is living up to expectations of change – they're front-loading investments, increasing their spending and have moved forward key defence spend commitments to 2029. Germany's GDP growth is expected to accelerate to 2.2% next year and the expected cyclical-pick up should present attractive opportunities.
- Earnings revisions are improving again after a weaker period. There are however low expectations in terms of corporate earnings growth. We remain both optimistic and opportunistic in the current environment as highlighted by our new small position in Gerresheimer and rotating more heavily into Chemring. There's still an abundance of energy in Europe currently and we see no real opportunities to get involved.
- The portfolio is diversified across sectors and the roughly 60 names we own in the portfolio are also diversified by idiosyncratic bottom-up growth drivers. No doubt current and future volatility will create opportunities, and we will not hesitate to carefully trade into some names which are on our watch list should the price be right. We like domestically facing names which are a good space for us in terms of tariff positioning.
- Our Blend strategy draws the best ideas from both value and growth parts of the market. We continue to maintain our diversified approach, with limited tilts to any particular investment style.

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 (%)

	Fund	Target	Comparator
2024	13.2	9.5	7.2
2023	6.3	18.8	17.0
2022	-14.3	-12.5	-13.4
2021	22.3	22.2	22.0
2020	-0.7	-1.0	-1.7
2019	24.7	25.5	23.8
2018	-17.0	-12.7	-13.9
2017	16.2	12.5	11.8
2016	2.3	4.4	3.3
2015	14.7	9.8	11.4

Source: Schroders, as at 31 December 2024. Fund performance is net of fees, NAV to NAV with net income reinvested, EUR C Acc. Please see factsheet for other share classes.

The fund's performance should be assessed against its target benchmark being to exceed the MSCI European Monetary Union (Net TR) index and compared against the Morningstar Eurozone Large Cap Equity Category. 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 have any bearing on how the investment manager invests the fund's assets.

## 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.

**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.

**Currency risk / hedged share classes:** The currency hedging of the share class may not be fully effective and residual currency exposure may remain. The cost associated with hedging may impact performance and potential gains may be more limited than for unhedged share classes.

**Derivatives risk:** Derivatives, which are financial instruments deriving their value from an underlying asset, 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.

**Higher volatility risk:** The price of this fund may be more volatile as it may take higher risks in search of higher rewards, meaning the price may go up and down to a greater extent.

**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.

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