

Schroder ISF* EURO Equity

Fund Manager: Martin Skanberg | Fund update: October 2025

Performance overview

- Eurozone equities gained in October. The fund underperformed the benchmark.

Drivers of fund performance

- Global and European equity markets have been trading nicely over the month with an aura of positivity surrounding market gains. The fund lagged slightly against a strong market backdrop.
- The key area of relative shortcoming for the fund was within the aerospace and defence sector, which fell in October amid some wider profit taking. This was reflected in our overweight positions in **Hensoldt**, **Chemring** and **Thales**. That said, losses here were partially offset by our lack of exposure to Rheinmetall, which fell, along with indirect exposure to the sector through **Indra Sistemas**. The company is experiencing a period of renewed investor interest which has aided shares. Spain has lagged the European and NATO defence spend increases but there are a large number of Spanish defence orders coming through in which the firm has benefitted.
- Within financials, **BNP Paribas** was amongst the key detractors. The firm saw a pullback as Sudanese litigation from 2014 reared worries about potential settlements on class action lawsuits.
- Also among the detractors was German internet service provider **IONOS**. The company has seen a general derating from a period of strong performance, as the threat of AI disruption looms and strong domestic competition for sovereign data centre business also weighed on shares.
- On the positive side, software company **Temenos** performed well. Software has been derating globally as AI threat and high valuations have weighed on the industry. The company's Q3 results were strong along with good client adoption for its core banking and wealth management software, with excellent margin progression and cash conversion. The company has also demonstrated resilience amid recent management changes.
- Swedish networking and telecoms company **Ericsson** aided returns on a strong Q3 report. More traditional value technology like telecom hardware has perhaps been an overlooked segment of the market. NVIDIA recently took a 3% stake in peer Nokia which has

reignited the strategic value of Radio Access Networks (RANs). This is not a high growth sector but has become interesting in the world of physical AI like wearable technology in which RANs could play a big part.

Portfolio activity

- A new position in the fund for October is health care conglomerate **Merck KGAA**. The bulk of Merck's business is within life sciences, an area which peaked in 2022 after extensive pandemic-related spending which has led to a subsequent derating and earnings contraction ever since. We believe the firm is in a life sciences trough which bodes well for its biopharmaceuticals manufacturing and consumables facing areas going forward. Along with its pharmaceutical division, the company also has an electronics division in which they produce a multitude of chemicals and gases needed in the manufacturing of wafers and chips in the semiconductor space. This is an area of the business that is seeing momentum and is geared to benefit from rising volume.

Outlook/positioning

- Markets have been dominated by strong earnings acceleration globally. The current global cycle is very strong, and the fourth quarter is set up for a robust end to the year. Economic indicators and earnings acceleration along with earnings multiples are supportive of this. AI CapEx is key to gains and is supporting a multitude of areas across the market.
- At the time of writing, we're just over halfway through the Q3 earnings season which has been slightly more volatile than usual. US technology and financials have come in way ahead of expectations for the most part, while in Europe has so far seen more modest beats. The dollar is beginning to strengthen slightly, reversing the trend for the year. We expect this dynamic to be more neutral into next year helping earnings momentum for exporters. Economic indicators across the Eurozone continue to pick up.
- 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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