Schroders

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Schroder ISF* EURO Equity

Fund Manager: Martin Skanberg | Fund update: January 2025

Performance overview

– Eurozone equities posted a strong gain in January. The fund outperformed the MSCI EMU index.

Drivers of fund performance

– Stock selection in the consumer discretionary and industrials sectors supported relative returns, along with our underweight in utilities. Cyclical parts of the market were generally in favour during the month.

– The leading individual contributor to relative returns was trucks maker **Iveco Group**. The stock benefited from positive updates from peers. The European trucks market has been trending lower and the market is turning more optimistic as it appears the trough may be close. Meanwhile, Iveco's armoured vehicles unit is supported by rising government spending on defence. Our position in defence group **Hensoldt**, a specialist in sensors and surveillance, also added value in January.

– Elsewhere within industrials, our position in **Siemens Energy** added value. The stock was volatile as the emergence of a low-cost AI model from China's DeepSeek cast some doubt on current elevated levels of investment in AI and related infrastructure. Demand from datacentres has been an important growth driver for Siemens Energy's grids business. However, fears over disruption from DeepSeek largely subsided. Siemens Energy shares then rebounded following the pre-release of quarterly results showing strong earnings, orders and cashflows.

– Within consumer discretionary, our positions in luxury goods group **Moncler** and **Richemont** added value. The luxury sector has been under pressure, partly due to lower demand from China. But Richemont disclosed robust sales figures for Q4 2024, supported by strong growth for the jewellery segment in the US.

– In the healthcare sector, **Sandoz Group** was a positive contributor. The group is a manufacturer of biosimilar and generic drugs. It is a key enabler of lower pharmaceutical costs for governments faced with ageing populations and pressure on healthcare budgets. A key date is 2031 when various anti-obesity drugs (GLP-1s) will come off patent.

– Employee benefits platform **Pluxee** also supported relative returns. It disclosed good sales figures which showed an acceleration in organic growth.

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– Detractors for the month included logistics firm **DSV**. The deal to buy DB Schenker is still working its way through the regulatory approvals process. DSV's results for Q4 2024 were slightly disappointing amid some weakness in the road business due to reduced vehicle manufacturing in Europe.

– **Henkel** was a detractor with the defensive consumer staples sector out of favour in the month. Its business is around 40% staples (haircare and household products), with the adhesives technologies division making up 60% of the business.

– Food services business **Sodexo** also weighed on relative performance. Its fiscal Q1 revenues were weak, potentially making it difficult to achieve full-year guidance.

Portfolio activity

– We have initiated a new position in banking software provider **Temenos**. It offers software for both core banking and wealth management products. The shares have been weak after a period over overambitious targets from the previous management. A new management team is now in place and has reset expectations. Temenos has also now largely completed the transition from on-premises to a subscription model. It has a strong footprint in Europe and emerging markets and a possibility to break into the US. We see it as a recovery and change story.

– Another new holding in Italian insurer **Generali** in which we have taken a neutral position. The insurance sector generally benefits from relatively low valuations, high dividend yields and solid solvency ratios. Generali is the leading life and property & casualty insurer in Italy and has a presence across Europe. The financial sector in Italy is seeing a wave of merger & acquisition activity, including UniCredit taking a 4% stake in Generali.

– We have sold out of **D'Ieteren** following distribution of the special dividend.

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

Outlook/positioning

- Eurozone markets have had a very positive start to the year. The disruption caused by news of DeepSeek's low-cost AI model may be serving as a wake-up call for investors regarding concentrated positioning in US large caps, and a need to rotate elsewhere. Even the information technology sector in Europe performed well in January, largely due to its favourable mix with the software industry performing well.
- The earnings season began in Europe towards the end of January but will pick up the pace in February. We see scope for earnings to surprise positively. The consumer in Europe is better placed than many realise with inflation abating. Meanwhile, there are signs that very weak purchasing manager indices are starting to improve.
- February brings the German elections. Germany clearly faces multiple challenges to its industrial model but there does appear to be recognition that change is necessary. Friedrich Merz's CDU (Christian Democrat Union) is likely to emerge as the largest party and his proposed tax cuts could be beneficial for growth. A key issue remains the potential reform of Germany's debt brake, which could enable greater borrowing to allow for more aid to Ukraine as well as more spending on defence and infrastructure.
- 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

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: The fund may lose value as a result of movements in foreign exchange rates.
Currency risk / hedged share classes: The 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 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 volatile as it may take higher risks in search of higher rewards.
IBOR Risk: 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.
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.
Market Risk: The value of investments can go up and down and an investor may not get back the amount initially invested.
Operational risk: Failures at service providers could lead to disruptions of fund operations or losses.
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. 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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