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Schroder ISF* EURO Equity

Fund Manager: Martin Skanberg | Fund update: July 2025

Performance overview

– Eurozone equities gained in July. The fund underperformed the benchmark.

Drivers of fund performance

– European markets experienced a notable upswing in July, buoyed by increased clarity around several significant trade agreements with the US, including those involving Japan and the EU. Many corporations were quick to flag the potential earnings/mathematical impact of tariffs post Liberation Day, and as we power through Q2 results season, it's becoming clear that many companies have been able to mitigate these impacts through better optimisation, pricing-up and cost reduction efforts.

– Our holding in core banking and wealth management software provider **Temenos** was the leading contributor. The company is undergoing a big transition to the cloud and last year saw the introduction of new management. It's been an excellent repositioning story, and the company has posted strong numbers for Q2, with both revenue growth and margins nicely ahead of expectations.

– Also amongst the leading contributors was Italian industrials company **Iveco**. Persistent M&A speculation seems to be reaching a resolution as it now appears that the company will be able to spin off both its defence related segment and its truck and powertrain business to two separate buyers. It's expected that the company will de-list and it is planning to distribute proceeds to shareholders by way of a special dividend. The company has been one of our largest conviction names and its strong performance has aided the fund well over the duration of our holding.

– Within health care, medical imaging specialist **Philips** has also aided relative returns. The company has produced a healthy set of Q2 results; revenue growth is resuming, and order growth is ahead. Q2 trade worries have been mitigated by their early flagging of potential impacts which has provided a positive reaction from investors and a slightly upgraded outlook, in which the company had initially downgraded. However, gains made within the sector were offset by our positions in both **Novo Nordisk** and **Fresenius Medical Care**.

– Novo Nordisk was amongst the leading detractors. The company announced slower growth within its obesity franchise which was also paired with FX translation headwinds and exposure to compounders in the US market. The company is still growing, but at a much slower rate. The market is treating the firm as an ex-growth company which we believe is incorrect. The company's leadership change has been much needed and remains at a heavy discount relative to long term value. Overcoming weakness in the US is heavily dependent on if compounders are allowed to continue to operate.

– Within financials, our position in **Deutsche Bank** added value. There has been a slightly weaker net interest income from a lower rate environment which has weighed on some banks, but good capital generation and strong trading numbers are helping to offset this. Deutsche Bank is a more capital market sensitive bank and has published good results for Q2, aiding returns. We also observe strong results from our holdings in **Intesa Sanpaolo** and **Caixabank**. However, the sector overall has weighed on performance from an allocation perspective as we remain slightly underweight financials as a whole relative to the benchmark. This has been paired with some weakness in Scandinavian banks like **DNB** and **Svenska Handelsbanken**.

– Elsewhere, lack of exposure to Siemens and seeing some profit taking within Aerospace and Defence has weighed on performance within industrials. There has also been some weakness within our new holding in **Jungheinrich**, who flagged some Euro strength related impacts and decided to announce a new cost-out programme which reduced the company's headline profits but should ultimately drive profits in the long run.

– Our position in **Legrand** however has added value. The company's Q2 results have stunned the market in a positive way; data centre growth is strong as hyperscalers continue to see huge potential which continues to benefit electrification leaders like Legrand.

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

Portfolio activity

- A new position in the fund is UK Mid cap company **Weir Group**. The company operates as a mining and minerals equipment and solutions provider which is strongly geared towards rising commodity prices. Large greenfield mining operations are accelerating along with a need in Europe to reduce reliance on rare earth imports from the likes of China. The increased sovereignty in this area stands to benefit Weir Group because of greater mining equipment demand. The company has published strong Q2 results, citing a positive outcome from its recent acquisition in Micromine, beneficial cost savings so far in 2025 and anticipation of accelerating mining capex by way of increased permissions in certain jurisdictions (e.g. US and Chile).

Outlook/positioning

- At the time of writing, we are amid the Q2 earnings season. Some of the larger European names have already reported, with sales results coming in a little bit lighter than expected. Technology has been ahead of expectations but some hardware related names like ASML have fallen on their long-term expectations. Cyclically sensitive names have been weak but have been facing an FX impact as the Euro strengthened.
- 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.
- We remain both optimistic and opportunistic in the current environment as highlighted by our new recent 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.
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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.
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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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