Schroders

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Schroder ISF* Global Equity Yield

Fund Managers: Simon Adler and Liam Nunn | Fund update: Q4 2024

Performance overview

- Global equities declined slightly in the quarter. The fund underperformed the MSCI World index.

Drivers of fund performance

- The fund underperformed the benchmark over the quarter. Stock selection in several sectors, notably communication services, weighed on relative returns.
- Within communication services, the main individual detractor was Japanese advertising firm **Dentsu**. Latest quarterly results showed good growth in Japan but disappointing progress in the Americas. Dentsu is due to unveil its mid-term plan at the full-year results in February.
- In the information technology sector, our underweight allocation was a detractor from relative performance.
- In consumer discretionary, not owning Tesla was negative for relative returns with the carmaker's shares performing strongly following Donald Trump's Presidential election win. Watches specialist **Swatch Group** was also among the detractors. The luxury goods sector is suffering from weaker consumer demand, notably from China.
- Within industrials, **Stanley Black & Decker** weighed on relative performance. Shares of the power tools manufacturer fell in the wake of Q3 results. The company reported a rise in Q3 profits but narrowed its guidance for 2024 earnings, cutting the top end of the expected range.
- Another detractor was conglomerate **Bayer** which reported a €4 billion loss, cut its profit guidance for 2024 and said the outlook for 2025 is "muted".
- On the positive side, the leading individual contributors were Japanese stocks **DeNA** and **Panasonic Holdings**. DeNA's games business is enjoying good operational performance. Panasonic is benefiting from robust demand for generative AI components and energy storage for data centres.
- A number of banking sector holdings also supported relative returns including emerging markets focused lender **Standard Chartered**, our newly initiated position in **Société Générale**, and long-time holding **NatWest Group**.

Portfolio activity

- We sold out of **Best Buy** and **eBay** as the shares have reached our estimate of fair value.
- We initiated a new position in chemicals group **LyondellBasell Industries**. Its shares have come under pressure due to several issues including excess supply in the US market and high gas prices in Europe affecting input costs. The result is that profits are at a cyclical low. We think the balance sheet is sufficiently resilient to weather this tough period and note that c.70% of free cash flow goes to shareholders.
- Another new holding is **Rohm**, a Japanese manufacturer of power and analogue semiconductors. It is facing increased competition from China as well as a cyclical downturn which is hitting Rohm while it is in the middle of a major capital expenditure programme to build out its silicon carbide capacity. However, the balance sheet remains in good shape, and we think this is a business with some long-term growth potential that's being marked down by the market on predominantly cyclical concerns.
- We built a position in automotive supplier **Lear Corporation** which, like Rohm, has seen its shares fall as the sector has been out of favour with investors. Lear's product portfolio is mainly dominated by seating and wiring, meaning it is less exposed to the shift to electric vehicles than many suppliers.
- We initiated a new position in German automaker **Volkswagen**. Shares have fallen following a recent profit warning. European carmakers are facing increased competition from Chinese carmakers, especially in the field of electric vehicles. There is potentially scope to cut research & development costs to benefit margins and cash flows. The company has a history of making decent returns across the cycle and we think the share price is now sufficiently attractive to build a position.
- Another new holding is French bank **Société Générale**. The market has generally been pessimistic on French banks given the headwinds of regulated deposit bases, punitive caps on loan pricing and inflexible labour market. Current

*Schroder International Selection Fund is referred to as Schroder ISF throughout political turmoil is also unhelpful. However, management has outlined a path to improve profitability over the coming years. This includes merging bank networks to reduce costs, scaling up digital banking, disposing of non-core assets, and the lagged benefit of higher interest rates.

- We sold out of **Citigroup** given we now see Société Générale as offering the more attractive risk/reward trade-off.

Past performance is not a reliable indicator of future results, prices of shares and the income from them may fall as well as rise and investors may not get the amount originally invested.

Calendar year performance (%)

Year	Fund	Target	Comp. 1	Comp. 2
2024	3.2	18.7	11.5	8.3
2023	16.3	23.8	11.5	13.5
2022	-6.4	-18.1	-6.5	-11.8
2021	19.5	21.8	21.9	17.1
2020	-6.1	15.9	-1.2	4.6
2019	16.5	27.7	21.7	21.7
2018	-11.0	-8.7	-10.8	-11.4
2017	22.1	22.4	17.1	18.8
2016	12.1	7.5	5.4	5.6
2015	-6.3	-0.9	-3.0	-2.8

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

The fund's performance should be assessed against its target benchmark, being to exceed the MSCI World (Net TR) index and compared against the MSCI World Value (Net TR) index (comp. 1) and the Morningstar Global Income Equity Category (comp. 2). The investment manager invests on a discretionary basis and there are no restrictions on the extent to which the fund's portfolio and performance may deviate from the target benchmark or the MSCI World Value (Net TR) index.

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.
- Derivatives risk – Efficient Portfolio Management and Investment Purposes: 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. The fund may also materially invest in derivatives including using short selling and leverage techniques with the aim of making a return. When the value of an asset changes, the value of a derivative based on that asset may change to a much greater extent. This may result in greater losses than investing in the underlying asset.
- Stock Connect risk: The fund may be investing in China "A" shares via the Shanghai-Hong Kong Stock Connect and Shenzhen-Hong Kong Stock Connect which may involve clearing and settlement, regulatory, operational and counterparty risks.
- Emerging Markets & Frontier risk: Emerging markets, and especially frontier markets, generally carry greater political, legal, counterparty, operational and liquidity risk than developed markets.
- 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.
- 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.

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