Schroders

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Schroder ISF* Global Equity Yield

Fund Managers: Simon Adler and Liam Nunn | Fund update: Q1 2025

Performance overview

– Global equities fell in Q1. The fund significantly outperformed the MSCI World index.

Drivers of fund performance

– The fund's outperformance of the MSCI World index in Q1 was driven by a substantial stock selection effect. Stock selection in the consumer discretionary, communication services, and financials sectors was a significant driver, while the fund's underweight in information technology also helped on a sector basis.

– French bank **Société Générale** was the largest individual contributor to returns. We established the position in November 2024, when we felt the market was overly pessimistic on French banks due to headwinds such as regulated deposit bases, punitive loan pricing caps, and an inflexible labour market. These factors had left Société Générale trading at a deep discount to tangible book value. However, management has since outlined a credible path to improved profitability, including merging bank networks to reduce costs, scaling up digital banking, disposing of non-core assets, and benefiting from higher interest rates.

– Our avoidance of overvalued US "Magnificent 7" stocks, especially Apple, Tesla, and Nvidia, boosted returns.

– In communication services, **BT Group** and **Orange** added value, with Orange raising 2025 guidance. Elsewhere, satellite operator **SES** was another positive contributor. Europe's need to be more self-sufficient in areas such as defence and satellite communications helped support the shares. SES has previously announced a pivot to military network provision.

– **WPP** was the main detractor, following a forecast of flat revenues and margins for 2025.

Portfolio activity

– We initiated a new position in car parts supplier **Aptiv**. It has a diversified geographical revenue base, although significant exposure to China has weighed on the shares. Investors are also somewhat wary about the planned spin-off of the legacy electrical distribution systems segment but this should allow Aptiv to focus on higher growth areas. The majority of their products are power-chain agnostic. We think the balance sheet is in good shape.

– Another new position is steel manufacturer and supplier **Ternium** which operates in the US and various countries across Latin America. We see it as a well-run business with a sensible balance sheet. Ternium has gained effective control over Brazilian business Usiminas which has struggled but Ternium is changing the management team.

– We have exited the position in UK supermarket group **Tesco** given the recovery in the valuation.

– Another sale is Japanese firm **DeNA**. It is a good case study in the importance of patience in value investing. It had been dismissed as dead money for a long time, but the balance sheet was rock solid and there was always a chance it would see a turnaround in gaming fortunes given the inherently cyclical industry dynamics. The shares surged to an eight-year high in the fourth quarter of 2024, and we took profits on valuation grounds.

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

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.
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– 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.
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– 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.
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– 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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