Schroders

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Schroder ISF* Global Equity Yield

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

Performance overview

– Global equities gained in January. The fund underperformed the MSCI World index.

Drivers of fund performance

– The fund posted a positive absolute return but underperformed the benchmark over the month. The portfolio's underweight allocation to information technology was beneficial for relative performance but stock selection in communication services was a detractor.

– Within communication services, lack of exposure to Meta Platforms weighed on relative returns. Our positions in media agencies **WPP** and **Dentsu** were among the main individual detractors. The industry is experiencing some disruption given the news in December that US peers Omnicom and IPG are to merge. WPP has a new chair in place.

– Also in communication services, telecoms firm **BT Group** was among the detractors. More defensive parts of the market were generally laggards while cyclical areas performed better. Some of our holdings within the defensive consumer staples sector – **Molson Coors Beverage**, **Kraft Heinz** - were also detractors.

– On the positive side, several of our banking sector holdings added value, including **Société Générale** and **Standard Chartered.** Banks have performed well as shareholder returns remain attractive and interest rates have come down only slowly amid still sticky inflation.

Portfolio activity

– We have exited the position in UK supermarket group **Tesco** given the recovery in the valuation. Tesco has successfully re-focused on its core food offering, taking market share again in the UK market and profit margins have recovered (now above 4% vs 2% at the trough). The group has successfully sold off non-core businesses, most recently Tesco Bank, and has used the cash to pay down debt and return cash to shareholders through buybacks.

– Another sale is Japanese firm **DeNA**. When we established the position the enterprise value was almost entirely covered by net financial assets, so even if the core mobile gaming business never recovered, it was already reflected in the price. As it happens, after years of patiently waiting through weak games division performance, DeNA developed a blockbuster hit in the second half of 2024. DeNA 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.

– A 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.

*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.
– 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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