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Schroder ISF* Global Equity Yield

Fund Managers: Simon Adler and Liam Nunn | Fund update: Q2 2025

Performance overview

Global equities gained in Q2. The fund underperformed the MSCI World index.

Drivers of fund performance

Relative to the benchmark, the fund's underweight position to the US, and US technology in particular which performed very well, was responsible for the underperformance. Not owning US tech giants Nvidia and Microsoft were among the biggest detractors to relative performance over the quarter, as their share prices increased by 45% and 32% respectively.

Of the companies we do own, US brewer **Molson Coors** detracted from returns in the second quarter. The company reported a challenging first quarter, with sales and earnings per share declining year-on-year. Molson Coors revised its full-year 2025 guidance, now anticipating a low single-digit decline in revenue and underlying income before income taxes. While Molson Coors isn't likely to be a fast-growing business, we are also not convinced it's inevitably set to see a steep decline in earnings power and cash flow on a medium-term view either – which it would appear to be implied at the current share price. We therefore believe the shares are undervalued with plenty of upside potential. The $2 billion share repurchase program is ongoing, which further enhances shareholder value.

Global workforce solutions company **Manpower Group** saw its share price fall after reporting lower than expected quarterly adjusted earnings and a decline in revenue for the first quarter of the year. US based chemical company LyondellBasell was another detractor after reporting lower-than-expected quarterly profits due to maintenance downtime and reduced volumes in key segments serving industries like automotive and construction. Shares in pharmaceutical company Bristol-Myers Squibb struggled in the second quarter, challenges such as potential tariffs on pharmaceutical imports and concerns about innovation and patient access to medicines.

Korean banks **KB** and **Shinhan** experienced significant share price increases in the second quarter. In line with the Korean government's 'Corporate Value-Up Program', both companies are taking shareholder friendly actions to try and close the valuation gap between themselves and their global peers. This policy encourages companies to enhance corporate governance and increase shareholder returns, and both KB and Shinhan announce plans to pay higher dividends and increase share buybacks.

German multinational automotive parts manufacturer, **Continental** performed well. The company is undergoing significant restructuring with a focus on turning its ContiTech division into an independent entity to become a pure-play tire maker. The CEO, Nikolai Setzer, emphasized the need for agility in response to market volatility and highlighted the tire business as the most profitable part of the company.

French bank **Société Générale** added value. 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. 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.

Portfolio activity

We invested in **Hewlett Packard Enterprise** (HPE) after a series of setbacks drove the shares to what we believe is an overly pessimistic valuation. Last year they announced, to a lot of fanfare, a deal to acquire Juniper, which management made that the lynchpin of their medium-term strategy with big potential cost synergies that could drive earnings growth in the networking side of their business. This deal was blocked by the regulator in early 2025 on competition grounds. Disappointment over the Juniper deal was compounded by a server business profit warning in Q1. The negative sentiment worsened after fresh US tariff announcements, which particularly affect HPE given its Asia-centric supply chain. The result of all this provided an attractive entry point as we felt the share price was imply margins would never recover. In June, HPE reported strong Q2 earnings, and the company's AI server revenue reached $1 billion in Q2, up from $900 million in the previous quarter. The $14 billion acquisition of Juniper Networks also received clearance from the U.S. Department of Justice after a settlement, boosting the share price.

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

We bought **Samsung Electronics.** The market has turned sharply against Samsung, as investors fret over it falling behind in cutting-edge memory technologies, particularly after missing the high-bandwidth memory (HBM) surge led by Hynix. The foundry business continues to lag peers, compounding concerns about Samsung's technology leadership. Broader geopolitical worries, including fears about the Trump administration's impact on global semiconductor demand and supply chains, have added fuel to the fire. Yet, this looks like an overreaction. Samsung still commands a leading position in DRAM and NAND, and its financial position is rock solid, with effectively no debt and ample liquidity. Despite this, the shares are now trading at levels that suggest a fundamental loss of competitiveness – well below tangible book value and far beneath historical profitability multiples. For a business of this scale and quality, that seems too harsh.

We added **Puma** to the portfolio. It has seen a dramatic reversal in fortunes over the past couple of years. Once an outperformer in global sportswear, it now finds itself squeezed between larger players like Nike and Adidas and newer, hotter brands like Hoka and On. Sales growth has stalled, and margins have declined, with the market questioning whether the brand still has relevance. Recent profit warnings and a step down in margin targets have added to the gloom, and looming US tariffs further clouded the outlook given the company's Asian manufacturing footprint. But there are signs of a strategic reset: a seasoned new CEO from Adidas takes over this summer and a major cost saving plan is underway. The share price implies that Puma will be permanently stuck in a low-margin rut, yet this seems at odds with the brand's long-term heritage, strong wholesale relationships and historical resilience. Trading at a record low valuation, sentiment seems washed out – and with a clean balance sheet, it wouldn't be a stretch to imagine it drawing interest from strategic buyers (although this is not part of our investment case).

We bought luxury branded goods business **Kering** in the second quarter. Its shares have suffered as Gucci – the group's key earnings engine – has gone through a rough patch. Gucci accounts for half of group sales but an even larger share of operating profit, and its performance has been weak over the past 18 months, with sales declining and margins hitting a multi-decade low. While part of this reflects broader softness in the luxury market, there's a clear admission from management that strategic missteps played a role – particularly an overemphasis on fashion-led, entry-level products that diluted the brand. A reset is underway, with plans to reorient toward high-end offerings and rationalise the store footprint, especially in China. The luxury sector more broadly is facing a pricing reset after years of aggressive hikes, so some pressure is likely to be structural. Still, we think the market is underestimating the resilience of the Gucci franchise. Even if future profitability settles well below past peaks, the shares look appealing. The balance sheet is less pristine than ideal, partly due to mistimed purchases of expensive flagship real estate, but steps are being taken to de-lever through asset sales. While there are risks, we think expectations now reflect an overly pessimistic view of Gucci's long-term earnings power.

Halliburton was new to the screen. Halliburton's share price has come under pressure amid renewed concerns over the US shale capex cycle. Around half of its business is tied to onshore US production, and with oil sentiment weakening following Trump's tariff push and OPEC's output increases, the market is pricing in a sharp and prolonged downturn. But we think the resilience of the company is being overlooked. Halliburton has consistently generated positive free cash flow through multiple cycles, with working capital often acting as a buffer during downturns. Its debt profile is well structured, with no major maturities until well beyond 2030. After reducing our oil exposure in recent years, the position had become quite small, but given the sector's renewed volatility, this felt like a good moment to rebuild exposure in a name with strong fundamentals and a proven track record of weathering energy cycles.

Other new positions to the portfolio include **Ambev**, **Mohawk Industries**, and **Valterra Platinums**. Elsewhere we sold out of our positions in **Ageas**, **Intesa Sanpaolo**, **Orange**, **KDDI**, and **Tiger Brands**

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.

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