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Schroders

Schroder ISF* European Special Situations

Fund Managers: Leon Howard-Spink & Paul Griffin | Fund update: January 2025

Performance overview

- Pan-European equities gained in January. The fund kept pace with the MSCI Europe index's advance.

Drivers of fund performance

- European shares registered a strong advance in January, outperforming other regions. Even before news emerged of DeepSeek's low-cost AI model, market leadership was starting to broaden out. There is growing recognition that the top 10% of the US market has become expensive compared to everything else and that is resulting in some rotation.
- The leading individual contributor for the month was **Experian**. Its shares were weak in Q4 for little discernible reason and rebounded in January following robust results showing accelerating revenue growth from new products.
- Another positive contributor was precision measuring group **Hexagon**. The stock has been through a difficult period but full-year results were much better than the market had expected and there is optimism over the arrival of a new chairman and CEO.
- Eyewear and eyecare specialist **EssilorLuxottica** added value. The market is very positive on the potential for growth in the US to accelerate and the prospects for developing new smart glasses such as the Nuance Audio glasses that combine hearing aids with prescription glasses.
- The luxury goods sector enjoyed a better January after a difficult 2024. Our position in **Moncler** supported relative returns amid positive updates from peers including Richemont and Burberry.
- Information and analytics provider **RELX** was another positive contributor amid optimism over the scope for its legal and risk business to grow in the US.
- On the negative side, some of our holdings were affected by worries over the implications of DeepSeek's low-cost model for investment in AI and related industries. Semiconductor holdings **BE Semiconductor Industries** was among these, as was electricity grid specialist **Schneider Electric**. Many questions remain about DeepSeek and it is not clear that it necessarily implies lower spending on AI. In fact, the emergence of technologies at reduced cost tends to accelerate and broaden out the use of that technology, ultimately resulting in more investment.
- Another detractor was consumer healthcare group **Haleon**. It is a defensive business and lagged the rising market. There was a placing of shares by Pfizer which weighed on the stock.

Portfolio activity

- We initiated a position in luxury goods giant **LVMH**, in the wake of the strong results from Richemont. We have been underweight the consumer and we wanted to add some exposure to diversify the growth drivers in the portfolio. After a difficult 2024, the luxury sector looks poised to return to growth in 2025, powered by demand in the US. LVMH shares de-rated in 2024 and we took advantage of what we view as an attractive entry point.
- We reduced the size of our position in testing & inspection group **Bureau Veritas** amid news of a potential tie-up with peer SGS. However, the potential deal highlighted the value of **Intertek**, another peer, and we added to our position.
- We continued to build our holdings in **Novonesis** and **Haleon**. We marginally reduced the size of positions in **Schneider Electric**, **ASML** and **Prysmian** given the volatility around the DeepSeek news. It may be that DeepSeek has little or no impact on either semiconductor or power demand (it could well be the opposite). But what is not up for debate is the crowded positioning. Our decision to reduce exposure at the margin is more to avoid being overly exposed to further sharp moves based on this volatility, rather than seeing any evidence of significant earnings risk to our holdings going forwards.

Outlook/positioning

- DeepSeek was not the only source of volatility in January; President Trump's announcement (and subsequent delay) of US tariffs on Mexico and Canada served as a warning that the policy environment is becoming less predictable. Amid the uncertainty, we feel it is more important than ever to focus on companies with pricing power.

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

- We have also been working hard to diversify out the sources of growth across the fund, having observed how narrow the leadership of the European (and global markets) had been. This has resulted in a number of recent additions to the portfolio such as **Alcon**, **Haleon**, **Intertek**, **Novonesis** and **Publicis**.
- As ever, it is important to remain focused on the fundamentals of our holdings. The longer-term structural growth drivers embedded in the fund remain strong: the shift to bio-based materials; broad investment in the energy transition; the need to accommodate population growth and the medical infrastructure that implies; the growth of the smart city with all the technology development required.

Past performance does not predict future returns. 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 (%)

Year	Fund	MSCI Europe net return
2024	4.2	8.6
2023	18.2	15.8
2022	-28.2	-9.5
2021	26.9	25.1
2020	11.7	-3.3
2019	35.9	26.7
2018	-16.8	-10.9
2017	16.2	10.2
2016	1.2	2.6
2015	17.7	8.2

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 Europe (Net TR) index. 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. The investment manager will invest in companies or sectors not included in the target benchmark in order to take advantage of specific investment opportunities.

Risk considerations

Concentration risk: The fund may be concentrated in a limited number of geographical regions, industry sectors, markets and/or individual positions. This may result in large changes in the value of the fund, both up or down.
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.
Currency risk: The fund may lose value as a result of movements in foreign exchange rates.
Derivatives risk: 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.
Higher volatility risk: The price of this fund may be volatile as it may take higher risks in search of higher rewards.
IBOR Risk: 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.
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.
Market Risk: The value of investments can go up and down and an investor may not get back the amount initially invested.
Operational risk: Failures at service providers could lead to disruptions of fund operations or losses.
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.
Sustainability risk: The fund has environmental and/or social characteristics. This means it may have limited exposure to some companies, industries or sectors and may forego certain investment opportunities, or dispose of certain holdings, that do not align with its sustainability criteria chosen by the investment manager. The fund may invest in companies that do not reflect the beliefs and values of any particular investor.

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