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Schroder ISF* European Special Situations

Fund Managers: Leon Howard-Spink & Paul Griffin | Fund update: Q2 2024

Performance overview

– Pan-European equities gained in Q2. The fund outperformed the MSCI Europe index.

Drivers of fund performance

– European shares gained in Q2 although election uncertainty in France caused weaker equity market performance towards the end of the period. The fund outperformed its benchmark, supported by strong stock election in industrials.

– The leading individual contributor was cables maker **Prysmian**. During the quarter it announced a deal to buy US business Encore Wire. This increases Prysmian's exposure to the low voltage, non-residential market in the US. This is a segment that is growing fast due in part to demand for data centres. Additionally, Prysmian's wider business continues to perform well amid the need to upgrade electricity grids globally.

– Data and analytics provider **RELX** was another positive contributor. The market is growing more confident that RELX will be able to achieve an acceleration in top-line growth.

– Our holding in pharmaceutical group **Novo Nordisk** also added value. Novo continues to benefit from the robust growth in demand for its obesity drugs.

– Data provider **Experian** was another leading contributor. Its full-year results were positive, and Experian announced new mid-term guidance for revenue growth and profit margins, giving confidence on future prospects. This shows the impact of its development of new products.

– Lack of exposure to LVMH was positive for portfolio performance as concerns over the outlook for consumers weighed on the luxury goods sector. However, we do own fellow luxury goods group **Moncler** which detracted. Similarly, **Croda International**, which makes ingredients for personal care products, was another detractor and has also been affected by the worries over a slowdown in consumer spending.

– The main individual detractor in the portfolio was medical device maker **ConvaTec**. Shares fell on some uncertainty in the US around biological dressings used in wound care. The uncertainty regards clinical testing needed and the level of reimbursements covered by insurers. Biologics dressings represent a very small part (c.3%) of ConvaTec's overall business and are far from being the only growth driver. We therefore feel the market's reaction was overdone.

– Testing and inspection firm **Bureau Veritas** weighed on relative returns due to its status as a French listed company. There is nothing wrong operationally with the business but the surprise announcement of parliamentary elections in France caused the market to sell French stocks. We do not expect Bureau Veritas's business to be affected by the changes that may come as a result of the elections.

Portfolio activity

– We continued to build positions in industrial gases firm **Air Liquide** and software maker **SAP**. At the margin, this is in order to build exposure to the large cap area of the market. This has been funded by exiting the position in **Dometic**, a maker of products and appliances for motorhomes and boats. We have some concerns over capital allocation decisions made by the firm so have decided to exit.

Outlook/positioning

– Political uncertainty has been a theme for European markets with elections held in the UK and France in recent days, and the US presidential election still to come. Meanwhile, the European Central Bank cut interest rates in the quarter but it remains to be seen whether inflation will fall back to a level that would enable further cuts, and whether the US will cut rates. There continue to be significant reactions to individual US data points on inflation, jobs, etc. These macro swings mean that factors continue to be a large driver of markets.

– Nonetheless, the performance of several of our holdings in the quarter demonstrates that companies with strong secular growth drivers can outperform. Experian is an example given the importance of themes such as data security and credit availability. Another example is the investment into electricity grids which is benefitting Prysmian. The longer-term structural growth drivers embedded in the fund remain strong.

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

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Calendar year performance (%)

Year	Fund	MSCI Europe net return
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
2014	4.5	6.8

Source: Schroders, as at 31 December 2023. 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.
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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.
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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.
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