

Schroder ISF* European Special Situations

Fund Managers: Leon Howard-Spink and Paul Griffin | Fund update: Q2 2025

Performance overview

- Pan-European equities advanced in Q2. The fund underperformed the MSCI Europe index.

Drivers of fund performance

- At the half year mark, we think it worth stepping back and reviewing performance overall year to date – a difficult period for the fund, no doubt. To the end of June 2025, the fund underperformed the MSCI Europe index by close to 10%. Relative to the MSCI Europe Growth index the fund underperformed by 4%.
- This commentary distinguishes between mistakes at the stock level versus headwinds from factor swings and the strong rallies in areas of the market where we have limited exposure (namely Aerospace and Defence).
- Starting with stock specifics and the two main mistakes – **Bunzl** and **Soitec**. Bunzl is a UK-listed global distributor which profit warned in mid-April, guiding down its full year numbers and removing its share buyback plans. The reasons for this were largely due to significant disruption to its business in North America, along with what we feel are several management missteps. The combination of the earnings downgrade, capital allocation concerns and a dent to management confidence caused a significant fall in the share price. In the current market environment this is very disappointing for what we perceive to be a relatively defensive stock performing in a poor manner. We have met with management twice since the profit warning and feel the investment case is not broken but it will take a while for management to regain market confidence. A recent trading update has given us and the market some comfort that no further deterioration is occurring. Despite that, we have cautiously cut the position back to c.1% to reflect near-term concerns.
- Soitec is a manufacturer of engineered wafers which has suffered from an inventory glut based on sluggish smartphone sales (which is the company's largest end market) as well as setbacks in the market for SiC (silicon carbide) which is a new avenue of growth. High turnover in the company's management team exacerbated the industry headwinds, with the company repeatedly offering poor guidance to the market. A string of profit warnings in 2024 was followed by a third early in Q1. We sold out completely on that news. In the case of Soitec, we made the mistake of holding on too long to a position on apparent valuation support, overlooking clear governance issues and over-reliance on one customer group. The lesson here is twofold – reminding ourselves to cut our losers when there is a clear shift in the earnings picture and loss of faith in management; and to size higher risk holdings such as Soitec more appropriately.
- Turning to factor and sector headwinds. Relative to the broader index, performance has been affected by the continued strong rally in value sectors. Banks, telcos and utilities continue to perform well. We estimate that around 1/3 of underperformance in the first half relative to the main MSCI Europe index has come from limited exposure to these areas. The impact on performance relative to the Growth index is less pronounced.
- Value has consistently outperformed growth for several years. We acknowledge that a re-set was necessary after the exuberant re-rating of growth stocks in the 2016-2022 period. However, valuations in the growth sectors are now back to historic averages and growth prospects are very strong going forwards for many quality companies, particularly in the healthcare, industrial, technology and materials space. We remain focused on identifying quality growth businesses – the majority of which have proven track records of generating good growth and high returns – rather than moving significantly into these value areas of the market which overall do not meet our criteria for what make a winning business in the long-term.
- By far the biggest headwind for the fund against the broader index has been stock selection in the industrials sector, where market leadership has narrowed somewhat. Almost 50% of the underperformance stems from this area. Relative to the MSCI Europe Growth index, stock selection in industrials was responsible for almost all our underperformance.
- On a stock level, the profit warning from Bunzl – which as a distributor is classified in capital goods – accounted for around 25% of the negative impact.

- The biggest negative impact, however, came from our zero weighting in Aerospace and Defence stocks which have moved sharply higher on growing geopolitical tensions and signals of structurally higher defence spending from several governments around the world.
- The MSCI Europe Aerospace and Defence sub index has returned ~53% in H1 2025, with re-ratings in some stocks particularly striking – Rheinmetall is the clear leader, the shares returning ~193% in six months with its 2025 P/E moving from 30x to 63x, clearly in expectation of a significant acceleration in growth into the latter part of this decade. The likes of Airbus, BAE Systems, Rolls Royce, Safran and Thales have seen shares move between 20% and 70% higher over the same period.
- The impact of not owning these names has been more pronounced for performance versus the Growth index due to the higher weighting of these stocks in that universe – these businesses are now c.10% of that index.
- By contrast, other areas of the Industrials sector have either performed more in line with the market or, indeed, gone sideways. After a strong run of performance, several names exposed to the themes of electrification and data centres came under pressure at the beginning of the year – partly on rotation, partly on concerns of a significant slowdown in hyperscaler spend. While these concerns appear to have been overdone (if anything we are seeing an acceleration of investment as AI applications rollout even faster), names such as **Prysmian** and **Schneider Electric** have seen some profit taking.
- The fund's high exposure to stocks in the Commercial and Professional Services area has also dragged on relative performance – this area of the market only gained 90bps over the six months, significantly underperforming higher beta areas such as Aerospace and Defence. We started the year with more than 10% invested in this space – namely through our positions in **Bureau Veritas**, **Experian**, **Intertek** and **Relx**. None of these businesses have disappointed operationally – in fact, all four are reporting strong organic growth trends for the year and mid-term prospects are excellent. As a group, these four stocks generate higher than average ROIC, look set for c.10% eps growth in the mid-term, have a lower beta and exhibit lower earnings volatility than the market. This is an attractive profile, in our view.
- Tariffs, uncertainty about the pace of AI spend and a geopolitically driven boom for defence stocks have made for a difficult six months as stock pickers within Industrials. As we head into H2, the fund's exposure to this sector remains diversified across several growth verticals – high quality, growing businesses involved in research & consulting services; specialty distribution; electrical equipment

and industrial automation; specialised engineering; and supply of sustainable building products.

- We remain zero weighted in Aerospace and Defence. We are actively reviewing the names in this space with our in-house analysts, particularly following recent events such as the Paris Airshow and the NATO Summit and examining again several names to explore whether there is a shift in the quantum and visibility of growth in the next decade to justify investment, particularly at the current elevated multiples.

Portfolio activity

- We acknowledged some of the risks in the Industrials space earlier in the year (namely too high a concentration in electrification/data centre names) – bringing down our aggregate exposure in the sector by reducing the size of several names including Prysmian and Schneider Electric.
- We have used the proceeds to diversify into other areas of the market, consciously trying to diversify the sources of growth. This has predominantly been into consumer-related areas – be it through **Haleon**, a UK-listed global consumer healthcare turnaround story; or through increased exposure to European retailers (**Inditex**, **Next** and **Zalando**). But, also, by adding to new conviction ideas such as **Alcon** and **Novonesis**.
- In the materials space, we have reduced our position size in **Azelis** to reflect greater risk for the stock based on a share overhang from private equity owners EQT. We have shifted the proceeds into a small position in UK specialty chemicals group **Croda** – which has similar long-term growth drivers to Azelis, namely the growth of personal care, healthcare and agriculture markets. We have owned Croda in the past and know the business well. It has gone through a very difficult period post COVID with significant earnings downgrades and de-rating based on high volatility of demand from all its customer groups. While there remains short-term uncertainty which may cause further share price volatility, we feel valuations are at a trough and there is a chance for earnings inflection in the mid-term.

Outlook/positioning

- In the past, the fund has suffered similar periods of sharp relative underperformance in a strongly rising market and then gone on to recover as market leadership broadens. As mentioned above, valuations in the growth space have now corrected post the COVID boom and now stand in line with historic averages. We have a collection of companies – not just in industrials but across multiple sectors – with exposure on a global level to a diverse range of structural growth areas, generating strong returns on capital which should lead from here to good shareholder returns. The portfolio as a whole is now

trading more in line with historic averages, while presenting strong returns and mid-term earnings growth.

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

Capital risk / distribution policy: As the fund intends to pay dividends regardless of its performance, a dividend may represent a return of part of the amount you invested.

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: If the fund's investments are denominated in currencies different to the fund's base currency, the fund may lose value as a result of movements in foreign exchange rates, otherwise known as currency rates. If the investor holds a share class in a different currency to the base currency of the fund, investors may be exposed to losses as a result of movements in currency rates.

Derivatives risk: Derivatives, which are financial instruments deriving their value from an underlying asset, 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 more volatile as it may take higher risks in search of higher rewards, meaning the price may go up and down to a greater extent.

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, meaning investors may not be able to have immediate access to their holdings.

Market Risk: The value of investments can go up and down and an investor may not get back the amount initially invested.

Operational risk: Operational processes, including those related to the safekeeping of assets, may fail. This may result in losses to the fund.

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.

Important Information:

Marketing material for professional clients and qualified investors only.

This document does not constitute an offer to anyone, or a solicitation by anyone, to subscribe for shares of Schroder International Selection Fund (the "Company"). Nothing in this document should be construed as advice and is therefore not a recommendation to buy or sell shares. An investment in the Company entails risks, which are fully described in the prospectus.

Subscriptions for shares of the Company can only be made on the basis of its latest Key Information Document and prospectus, together with the latest audited annual report (and subsequent unaudited semi-annual report, if published), copies of which can be obtained, free of charge, from Schroder Investment Management (Europe) S.A.

The Company is a Luxembourg-based Société d'Investissement à Capital Variable (SICAV) with unlimited duration which is coordinated with regard to the European regulations and meets the criteria for Undertakings for Collective Investment in Transferable Securities (UCITS).

This document, and the information contained herein, does not constitute, and is not intended to constitute, a public offer of securities to the retail investors in the United Arab Emirates ("UAE") and accordingly should not be construed as such. No regulatory authority in the UAE has any responsibility for reviewing or verifying this prospectus or any other documents in connection with the promotion of this fund. Accordingly, no regulatory authority in the UAE has approved the prospectus or any other associated documents, nor taken any steps to verify the information set out herein, and therefore no regulatory authority in the UAE has any responsibility for the same. The interests in the fund/s ("Interests") mentioned in the document may be illiquid and/or subject to restrictions on their resale. Prospective purchasers should conduct their own due diligence on the Interests. Anyone not understanding the contents of this document should consult an authorised financial adviser.

For Austria, these documents may be obtained in German, free of charge, from the following link: www.eifs.lu/schroders and from our Information Agent Schroder Investment Management (Europe) S.A., German Branch, Taunustor 1, D-60310 Frankfurt am Main, Germany.

For Belgium, these documents may be obtained in French and Dutch, free of charge from the following link: www.eifs.lu/schroders.

The total net asset value is published on the website of the Belgian Asset Managers Association (BEAMA) on www.beama.be. In addition, the tariff schedules are available from distributors in Belgium. The fee on the stock exchange transactions of 1.32 % (with a maximum of € 4,000 per transaction) is payable on the purchase or conversion of capitalisation shares if they are carried out by the intervention of a professional intermediary in Belgium. Dividends paid by the Company to natural persons who are Belgian tax residents are subject to a Belgian withholding tax at a rate of 30% if they are paid by the intervention of a financial intermediary established in Belgium (this information applies to all distribution shares). If the dividends are received by such natural persons without the intervention of a financial intermediary established in Belgium, they must indicate the amount of the dividends received in their tax return and will be taxed on that amount at a rate of 30%. In the event of the redemption or sale of shares of a sub-fund investing, directly or indirectly, either (i) more than 25% of its assets in receivables with regard to shares acquired by the investor before January 1, 2018, or (ii) more than 10% of its assets in receivables with regard to the shares acquired by the investor from 1 January 2018 (provided, in each of these two cases, that certain additional conditions are met), the interest component of this redemption or sale price is subject to a 30% tax in Belgium.

For Bulgaria, the Key Information Documents may be obtained in Bulgarian and the other documents in English, free of charge from the following link: www.eifs.lu/schroders.

For the Czech Republic, the Key Information Documents may be obtained in Czech and the other documents in English, free of charge from the following link: www.eifs.lu/schroders.

For Denmark, the Key Information Documents may be obtained in Danish and the other documents in English, free of charge, from the following link: www.eifs.lu/schroders and Schroder Investment Management (Europe) S. A. dansk filial, Bredgade 45C, 2nd floor, DK-1260 Copenhagen K. A decision on a possible investment should be made on the basis of personal advice.

For Finland, the Key Information Documents may be obtained in Finnish, Swedish and English and the other documents in English, free of charge at the following link: www.eifs.lu/schroders.

For France, these documents may be obtained in French, free of charge, from the following link: www.eifs.lu/schroders, Schroder Investment Management (Europe) S.A., Paris Branch, 1, rue Euler, 75008 Paris and the Centralising agent Société Générale, 29 boulevard Haussmann, F-75009 Paris.

For Germany, these documents may be obtained in German, free of charge, at the following link: www.eifs.lu/schroders and Schroder Investment Management (Europe) S.A., German Branch, Taunustor 1, D-60310 Frankfurt am Main.

For Greece, the Key Information Documents may be obtained in Greek and the other documents in English, free of charge, from the following link: www.eifs.lu/schroders.

For Hungary, the Key Information Documents may be obtained in Hungarian and the other documents in English, free of charge, from the following link: www.eifs.lu/schroders.

For Iceland, the Key Information Documents may be obtained in Icelandic and the other documents in English, free of charge, from the following link: www.eifs.lu/schroders.

For Ireland, these documents may be obtained in English, free of charge, from the following link: www.eifs.lu/schroders.

For Italy, these documents may be obtained in Italian, free of charge, from the following link: www.eifs.lu/schroders, Schroder Investment Management (Europe) S.A. Succursale Italiana, Via Manzoni 5, 20121 Milan and from our distributors. These documents and the list of distributors are available at www.schroders.it

For Latvia, the Key Information Documents may be obtained in Latvian and the other documents in English, free of charge, from the following link: www.eifs.lu/schroders.

For Liechtenstein, these documents may be obtained in German, free of charge, from the following link: www.eifs.lu/schroders.

For Lithuania, the Key Information Documents may be obtained in Lithuanian and the other documents in English, free of charge, from the following link: www.eifs.lu/schroders.

For Luxembourg, these documents may be obtained in English, free of charge, from the following link: www.eifs.lu/schroders.

For Malta, these documents may be obtained in English, free of charge, from the following link: www.eifs.lu/schroders.

For the Netherlands, the Key Information Documents may be obtained in Dutch and the other documents in English, free of charge, from the following link: www.eifs.lu/schroders.

For Norway, the Key Information Documents may be obtained in Norwegian and English and the other documents in English, free of charge, from the following link: www.eifs.lu/schroders.

For Poland, the Key Information Documents may be obtained in Polish and the other documents in English, free of charge, from the following link: www.eifs.lu/schroders.

The company is a Luxembourg-registered undertaking for the collective investment in transferable securities and operates in Poland in accordance with the Act of 27 May 2004 on investment funds and the management of alternative investment funds (Journal of Laws of 2004 No. 146, item 1546 as amended). Depending on the applicable tax obligations, the investor may be required to pay tax directly on the income arising from investments in the units of the fund.

For Portugal, the Key Information Documents may be obtained in Portuguese and the other documents in English, free of charge, from the following link: www.eifs.lu/schroders, from the authorised placing entities and on www.schroders.pt.

For Romania, the Key Information Documents may be obtained in Romanian and the other documents in English, free of charge, from the following link: www.eifs.lu/schroders.

For Slovakia, the Key Information Documents may be obtained in Slovakian and the other documents in English, free of charge, from the following link: www.eifs.lu/schroders.

For Spain, these documents may be obtained in Spanish, free of charge, from the following link: www.eifs.lu/schroders, the CNMV, the distributors and on www.schroders.es.

The Company is registered in the Administrative Register of Foreign Collective Investment Institutions marketed in Spain of the National Securities Market Commission (CNMV), with the number 135. Its depository is J.P. Morgan SE and its management company is Schroder Investment Management (Europe) S.A.. The Company is a UCITS registered in Luxembourg.

For Sweden, the Key Information Documents may be obtained in Swedish and the other documents in English, free of charge, from the following link: www.eifs.lu/schroders.

Schroder Investment Management (Switzerland) AG is the Swiss representative («Swiss Representative») and Schroder & Co Bank AG is the paying agent in Switzerland of the Luxembourg domiciled Schroder International Selection Fund. The prospectus for Switzerland, the key information documents, the articles of association and the annual and semi-annual reports may be obtained free of charge from the Swiss Representative.

For the UK, these documents may be obtained in English, free of charge, from the following link: www.eifs.lu/schroders.

Schroders may decide to cease the distribution of any fund(s) in any EEA country at any time but we will publish our intention to do so on our website, in line with applicable regulatory requirements.

The fund has environmental and/or social characteristics within the meaning of Article 8 of Regulation (EU) 2019/2088 on Sustainability-related Disclosures in the Financial Services Sector (the «SFDR»). For information on sustainability-related aspects of this fund please go to www.schroders.com. For the UK only: This product is based overseas and is not subject to UK sustainable investment labelling and disclosure requirements.

Any reference to regions/ countries/ sectors/ stocks/ securities is for illustrative purposes only and not a recommendation to buy or sell any financial instruments or adopt a specific investment strategy.

Past Performance is not a guide to future performance and may not be repeated.

The value of investments and the income from them may go down as well as up and investors may not get back the amounts originally invested. Exchange rate changes may cause the value of investments to fall as well as rise.

Performance data does not take into account any commissions and costs, if any, charged when units or shares of any fund, as applicable, are issued and redeemed.

Schroders has expressed its own views and opinions in this document and these may change.

Information herein is believed to be reliable but Schroders does not warrant its completeness or accuracy.

The data contained in this document has been sourced by Schroders and should be independently verified. Third party data is owned or licenced by the data provider and may not be reproduced, extracted or used for any other purpose without the data provider's consent. Neither Schroders, nor the data provider, will have any liability in connection with the third-party data.

This document may contain "forward-looking" information, such as forecasts or projections. Please note that any such information is not a guarantee of any future performance and there is no assurance that any forecast or projection will be realised.

Schroders will be a data controller in respect of your personal data. For information on how Schroders might process your personal data, please view our Privacy Policy available at <https://www.schroders.com/en/global/individual/footer/privacy-statement/> or on request should you not have access to this webpage.

A summary of investor rights may be obtained from <https://www.schroders.com/en/global/individual/summary-of-investor-rights/>

For your security, communications may be recorded or monitored.

Issued by Schroder Investment Management (Europe) S.A., 5, rue Höhenhof, L-1736 Senningerberg, Luxembourg. Registration No B 37.799.

Authorized by the Comissão do Mercado de Valores Mobiliários (CMVM) to operate in Portugal under the free provision of services regime, and with a branch in Spain, authorized and registered with the CNMV under number 20.

Distributed by Schroder Investment Management (Europe) S.A., Spanish branch, registered in the EEA investment firm register with the National Market Commission of Securities (CNMV) with the number 20.

Distributed in Switzerland by Schroder Investment Management (Switzerland) AG, Central 2, CH-8001 Zurich, Switzerland a fund management company authorised and supervised by the Swiss Financial Market Supervisory Authority FINMA, Laupenstrasse 27, CH-3003 Bern.

Distributed in the UK by Schroder Investment Management Ltd, 1 London Wall Place, London EC2Y 5AU. Registration No 1893220 England. Authorised and regulated by the Financial Conduct Authority.

Distributed by Schroder Investment Management Limited (Dubai Branch), located on the First Floor, Gate Village Six, Dubai International Financial Centre, PO Box 506612, Dubai, United Arab Emirates and regulated by the Dubai Financial Services Authority (DFSA) and entered on the DFSA register under Firm Reference Number: F000513. This document is not subject to any form of regulation or approval by the DFSA.