

Schroder ISF* European Special Situations

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

Performance overview

- Pan-European equities gained strongly in May. The fund marginally underperformed the MSCI Europe index.

Drivers of fund performance

- European markets recovered well following the volatility seen in April as part of the US's 'Liberation Day' global tariff announcements. The markets buoyancy was upheld largely by cyclical names. The fund roughly tracked the index and kept up with the overall market return. While we had reduced our allocation in industrials and technology in Q1, we remind ourselves that we retained exposure to more cyclical areas of the market. We believe this has been the right thing to do in a market that's seeing an easing in trade war uncertainty. There has been a lot of noise, but we have been careful not to overact. We diversified the growth drivers but retained existing positions with conviction.
- As a result, our position in industrials name **Prysmian** was the leading contributor to relative performance. After a difficult Q1 period where we observed the market sell off from electrification names, the company has bounced back on good broader numbers and a sense of easing pricing pressure in industrial and construction markets.
- Within the technology sector, our position in semiconductor name **Infineon** was another contributor. The company published positive headline results for Q1 and some convincing market commentary from the firm lifted shares in May.
- Consumer health care group **Haleon** also added value. A recent capital markets day event underscored the significant opportunity for visible sales growth for the firm and more importantly a step change in returns.
- However, our gains in the sector were offset from our holdings in fellow health care names **Alcon** and **Lonza**. Alcon disappointed the market with a weaker than anticipated Q1 print, highlighting a particular weakness within its surgical equipment division. That said, we see this as a short-term weakness and remain positive on the company's longer-term outlook. Lonza on the other hand has continued to deliver positive results but has fallen victim to the high level of uncertainty within the pharmaceuticals market based on the Trump administration and potential changes to drug policies.

- Also on the negative side was industrials firm **RELX**. With European markets bullish in the month and a switch to a more risk-on environment, the relative defensive nature of the company meant that it lagged the market.

Portfolio activity

- At the margin, we have continued to add to names where we feel valuations are well supported. This has predominantly been in more cyclical names which have fallen, like **ASML**. We have also taken the opportunity to add to **Assa Abloy** at what is a historic relative low in terms of valuations, along with the likes of **Infineon** and **Prysmian**.
- In a similar sense, we have also strategically reduced our positioning in some key names. Following a profit warning in April, we have adjusted down our position size in **Bunzl** to reflect short-term uncertainty, however, we remain confident in longer term outcomes. We have also reduced our position size in **Azelis** to reflect greater risk for the stock, and we have taken some profits in both **Air Liquide** and **Experian**.
- We have also initiated two new small positions, the first being in specialty chemicals firm **Croda International** and the second in European online retailer **Zalando**. As we continue to build our positions we will report on these names more thoroughly in the quarterly update.

Outlook/positioning

- Markets have experienced an extremely volatile month following the Trump administration's tariff announcements. Even before the "Liberation Day" measures were revealed, we had been reducing exposure to technology and capital goods areas of the market in acknowledgement of heightened uncertainty, bringing down the cyclical and beta of the fund. We remain invested in those areas, however – we have not sold to zero. At the same time, we have been increasing the weightings of more stable and defensive holdings, with the new positions in Beiersdorf and Unilever being prime examples. For both stocks, we should add that there are very clear idiosyncratic drivers in the years ahead – largely around dynamic management teams driving faster top-line growth; we have not added to

consumer staples names purely as a response to the macro backdrop.

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.

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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.

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