

Schroder ISF* European Special Situations

Fund Managers: Leon Howard-Spink & Paul Griffin | Fund update: Q4 2024

Performance overview

- Pan-European equities fell in Q4. The fund underperformed the MSCI Europe index.

Drivers of fund performance

- European shares fell in the quarter. The fund lagged the benchmark due to the underweight allocation to financials, which outperformed, and weaker stock selection in industrials and materials. Stockpicking in healthcare added value.
- Building materials supplier **Sika** was the main individual detractor from relative returns. Despite positive sales growth, there are some worries over continued weak construction markets and softer profit margins.
- Within industrials, credit information provider **Experian** weighed on fund performance. The shares had a strong run in 2024 and there was some profit-taking following the quarterly results in November. Lack of exposure to Airbus was another drag on relative performance.
- In the healthcare sector, our position in pharmaceutical group **Novo Nordisk** was a detractor. The shares fell following a disappointing clinical read-out from a trial of experimental obesity drug CagriSenna.
- However, another healthcare holding was the leading individual contributor for the quarter. **EssilorLuxottica**, a specialist in eyewear and eyecare, added value amid rumours Meta may be interested in building a stake. The two companies already have a partnership developing augmented reality glasses.
- Some of our holdings with significant exposure to the US were among the leading individual contributors for the quarter. These included information and analytics publisher **RELX** which is enjoying an acceleration of growth in its risk and legal divisions.
- In the information technology sector, **BE Semiconductor Industries** added value. The stock has been through a volatile period but bounced back in the quarter amid good prospects for its hybrid bonding technology. Software firm **SAP** was another positive contributor. It is executing well and top line growth is improving as its cloud offering gains increased traction. Added to this are the benefits of recent efficiency initiatives on operating margins and free cash flow generation.

Portfolio activity

- We initiated a new position in testing & inspection firm **Intertek** during November. It has higher exposure than peers to the consumer goods sector. This is typically a source of steady growth but the wave of destocking in the post-pandemic period has weighed on growth and caused the shares to underperform peers. This should now start to normalise. Intertek upgraded its guidance at the Q3 results in a sign growth is already starting to come through. We took some profits in **Bureau Veritas**, **RELX** and **Experian** to fund the position.
- Another new holding is **Novonesis**, formed via the merger of Novozymes with Christian Hansen. We are confident that the merged group can deliver significantly higher growth rates.
- We also added to some recently initiated positions, including **Haleon**, **Alcon** and **Air Liquide**. We took some profits in holdings that have done well including **Prysmian** and **Schneider Electric**.

Outlook/positioning

- Donald Trump's victory in the US election has prompted debate over what his policies may mean for equity markets. Markets have been choppy as investors debate potential policies on trade tariffs and the impact on other regions. At the same time, Europe faces its own political uncertainty with elections forthcoming in Germany and a fractious political situation in France.
- However, there are positive signs to be found. For example, recent commentary from Microsoft and others is bullish for the prospects of capital expenditure on semiconductors.
- We would note that despite the political uncertainty, European markets are home to many companies who are global leaders in their fields and not reliant on domestic demand. And being listed in Europe generally means they are more cheaply valued than US peers. We would argue that the portfolio contains many such attractively valued and high-quality companies.
- 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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