

Schroder ISF* European Value

Fund Managers: Andrew Lyddon | Fund update: Q2 2025

Performance overview

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

Drivers of fund performance

The fund substantially outperformed the index in Q2, thanks largely to stock selection within consumer discretionary, financials, and energy.

Scandinavian and German house builder **Bonava** performed well. Housing markets across the region are showing signs of recovery, from a very low base. Valuation was very depressed so only a little good news needed to make things move a long way.

Junghheinrich, provider of material handling solutions was positive. It is a good quality business that's been ignored. The company would be an early beneficiary of increased investment activity in Europe and has a much higher proportion of sales from Europe than many other capital goods businesses.

Bank **ABN Amro** was another top performer. The company is benefiting from the higher interest rates that continue to come through, despite some degree of market scepticism.

On the negative side, geoseismic survey business for oil & gas exploration **TGS** detracted. Their revenues are very geared into outlook for exploration spending by large oil companies, this didn't improve to the extent people had hoped during the quarter. It has also just gone through a merger which the market is sceptical about.

Italian luxury fashion house **Salvatore Ferragamo** was hurt by general weakness in luxury goods but has been performing poorly operationally for several years. The company is also navigating a CEO change.

Swiss watch manufacturer **Swatch** was hurt by general weakness across much of the luxury goods sector, amplified by investor despair over the unwillingness of the controlling Hayek family to restructure the business.

Portfolio activity

A new position in the portfolio is **Lanxess**, an industrial chemicals business. The sector has fallen a lot YTD over fears of a downturn in Europe. Both on normalised PEs of <10x with financial positions able to cope with uncertainty, either because of low levels of debt or because they have non-core businesses to sell.

Luxury / branded goods businesses **Kering** and **Puma** are also new to the portfolio. General outlook for these companies has been weak, initially in China plus being hit by US tariffs. Both also have positioning issues with their key brands. Issues with tariffs are likely to be temporary and / or recovered by pricing. And with time and investment there's a good chance both brands can recover, with balance sheets good enough to ride out a few tough years. Valuations assume margins normalise at roughly half their long-term average.

Vertically integrated paper business **Stora Enso** is new to the portfolio. Industry under a lot of pressure from energy costs, cheap Chinese exports, tariffs, capacity added at wrong point in cycle. Stora is attractively valued, before considering its significant forestry assets in Sweden. Management has started to sell non-core areas for rich multiples, which should help protect its balance sheet and permit extra shareholder returns.

Jenoptik is a new holding. The optics business whose biggest activity is selling optical sensors in the semiconductor value chain, especially for ASML's equipment. Shares are currently depressed due to the downturn in semiconductor markets, but Jenoptik are a monopoly provider of these sensors to ASML and others. Good long-term growth prospects in high value added field, trading on a PE of 10x.

We sold out of **Anglo American** and **NatWest** over the quarter. Anglo had hit our estimation of fair value after the spin-out of the Valterra platinum business. Rio Tinto looks much more attractive and plenty of new ideas. NatWest also hit fair value, the proceeds of the sale were recycled into more attractive ideas. Valuation now discounts continuation of high net interest margins, which we think will mean revert down at some point.

Past performance is not a reliable indicator of future results, prices of shares and the income from them may fall as well as rise and investors may not get the amount originally invested.

Calendar year performance (%)

| Year | Fund | Target | Comp. 1 | Comp. 2 |
|------|-------|--------|---------|---------|
| 2024 | 6.4 | 8.6 | 11.2 | 5.2 |
| 2023 | 14.7 | 15.8 | 15.6 | 13.2 |
| 2022 | -1.0 | -9.5 | -1.1 | -16.9 |
| 2021 | 30.4 | 25.1 | 21.8 | 21.2 |
| 2020 | -16.6 | -3.3 | -12.9 | -7.5 |
| 2019 | 19.1 | 26.0 | 19.6 | 21.1 |
| 2018 | -12.6 | -10.6 | -11.6 | -14.5 |
| 2017 | 6.5 | 10.2 | 8.3 | 9.5 |
| 2016 | 7.0 | 2.6 | 7.4 | 3.5 |
| 2015 | 12.6 | 8.2 | 0.6 | 16.0 |

Source: Schroders, as at 31 December 2024. Fund performance is net of fees, NAV to NAV with net income reinvested, C Acc shares. Please see factsheet for other share classes. The target benchmark is MSCI Europe NR index, comparator 1 is MSCI Value NR and comparator 2 is Morningstar Europe Large Cap Value Equity sector. The fund's investment universe is expected to overlap to a limited extent with the components of the target benchmark and the MSCI Europe Value (Net TR) index. The comparator benchmarks are only included for performance comparison purposes and do not determine how the investment manager invests the fund's assets. 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 or the MSCI Europe Value (Net TR) index.

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.

Currency risk / hedged share class: The currency hedging of the share class may not be fully effective and residual currency exposure may remain. The cost associated with hedging may impact performance and potential gains may be more limited than for unhedged share classes.

Derivatives risk: Derivatives, which are financial instruments deriving their value from an underlying

asset, may be used for investment purposes and/ or 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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