Schroders

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Schroder ISF* European Value

Fund Managers: Andrew Lyddon & Andrew Evans | Fund update: Q4 2024

Performance overview

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

Drivers of fund performance

Stock selection in industrials weighed on relative returns in the quarter, as did the portfolio's overweight exposure to the real estate sector. Stock selection within financials was beneficial for relative performance.

Within industrials, our positions in staffing firms **Adecco** and **Randstad** were detractors from relative returns. Adecco's Q3 results were poorly received by the market as the group reported weaker than expected organic growth, Adecco said volumes appeared to be stabilizing in Q3 and into Q4.

The main individual detractor was engineering and consulting firm **John Wood Group**. Shares fell in November after the group announced an independent review of its "projects" division, which designs and procures for large engineering projects. The review will determine if previously reported information needs to be restated.

Kitchen specialist **Nobia** was another detractor. The group's Q3 results highlighted ongoing weakness in the project market, although the consumer market showed signs of recovery.

Within real estate, our positions in **Icade** and **British Land** weighed on relative returns.

Lack of exposure to technology group SAP also detracted from fund performance.

On the positive side, luxury goods group **Burberry** was the leading individual contributor. It has been a difficult period for the luxury goods sector but Burberry performed well as the new CEO unveiled a turnaround plan to cut costs and stabilize the brand.

A number of banking sector holdings also supported relative returns including **Standard Chartered**, **Société Générale**, **Barclays** and **NatWest Group**.

Portfolio activity

- We have built a new position in supermarket group **Ahold**. We see it as a good quality food retailer with a strong balance sheet. The fact that 70% of profits are derived from the US differentiates it from other European food retailers.
- Another new position is **TGS**, a seismic data and services company that we have held before. It has now completed the merger with peer PGS. The merger changes the business model from asset-lite to more asset heavy via ownership of some survey vessels. It also increases debt on the balance sheet, although from very low levels. However, the combined business will remain financially strong, with the ability to refinance PGS's high cost debt to boost cash generation.
- We built a position in luxury goods group **Salvatore Ferragamo**. The company missed out on the post-pandemic boom in luxury goods but is now suffering from the downturn, including weak demand from China. There is a risk that brand perception has been permanently impaired, but the balance sheet is strong and the scope for recovery is attractive.
- We also initiated a position in life insurer **Prudential**. Following demergers, it is now largely focused on Asia, and particularly China and Hong Kong. This brings some risk, but also the possibility of faster growth than is typical for the insurance sector. Growing life insurance penetration levels, health cover requirements and rising wealth are the key drivers for the business. We have exited insurers **Allianz** and **Axa** as they have reached our estimate of fair value.
- We sold out of **Covestro** given it has agreed a takeover offer from ADNOC.
- We exited **Electrolux** because we believe the risk has increased. Electrolux has failed to sell certain assets which means a key milestone for fixing the balance sheet has been missed.
- We also sold out of **Scandic Hotels** as the shares reached fair value.

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

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

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.
Operational risk: Operational processes, including those related to the safekeeping of assets, may fail. This may result in losses to the fund.
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. The fund may also materially invest in derivatives including using short selling and leverage techniques with the aim of making a return. When the value of an asset changes, the value of a derivative based on that asset may change to a much greater extent. This may result in greater losses than investing in the underlying asset.
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.
Higher volatility risk: The price of this fund may be volatile as it may take higher risks in search of higher rewards.
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.
IBOR: 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.
Market risk: The value of investments can go up and down and an investor may not get back the amount initially invested.