Schroders

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Schroder ISF* European Value

Fund Managers: Andrew Lyddon & Andrew Evans | Fund update: Q1 2025

Performance overview

- European equities gained in Q1.
- The fund outperformed the MSCI Europe index.

Drivers of fund performance

The fund substantially outperformed the index in Q1, thanks largely to stock selection within financials and healthcare, as well as the lack of exposure to information technology.

French bank **Société Générale** was the largest individual contributor to relative returns. We felt last year that the market was overly pessimistic on French banks due to headwinds such as regulated deposit bases, punitive loan pricing caps, and an inflexible labour market. These factors had left Societe Generale trading at a deep discount to tangible book value. However, management has since outlined a credible path to improved profitability. The bank is well-capitalised. Other financial sector holdings also supported relative performance, including **ABN Amro** and **Prudential**.

In healthcare, avoidance of Novo Nordisk supported relative performance.

Within communication services, satellite operator **SES** was a positive contributor. Europe's need to be more self-sufficient in areas such as defence and satellite communications helped support the shares. SES has previously announced a pivot to military network provision. **Orange** also added value after disclosing good Q4 results and raising guidance for 2025.

Our positions in trucks group **Iveco** also added value. It has exposure to the defence sector via its military and logistics vehicles segment.

On the negative side, our holding in **WPP** was the largest individual detractor, as the advertising group stated that revenues and profit margins are likely to be flat in 2025.

Portfolio activity

- A new position in the portfolio is **Verallia**, a glass packaging producer that was spun out of Saint Gobain a few years ago. The shares have been weak since the company cut profit guidance in mid-2024 after a very strong 2023. This has made debt look higher and left the dividend uncovered. However, once profits normalize, we think neither debt nor dividend cover will be a problem and view the valuation as undemanding.
- Another new holding is lighting business **Signify** (formerly Philips Lighting). The business has undergone a transformation with profits from traditional lamps accounting for just 14% of the total. We think the current valuation anticipates structural decline, whereas we view Signify's current difficulties as cyclical and therefore think it can recover.
- **Forbo** is another new holding. It is an industrial business making movement systems (e.g. belts for production lines) and flooring. Top line growth has been lacklustre but it has historically delivered consistent margins, while cash conversion has been strong and largely returned to shareholders.
- We exited **H Lundbeck** which we have been trimming since last summer following strong performance.

*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.

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