

Schroder ISF* European Large Cap

Fund Manager: Nicholette MacDonald-Brown | Fund update: Q1 2023

Performance overview

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

Drivers of fund performance

- European shares posted strong gains in Q1. Fears of a severe recession have abated, partly due to easing energy price pressures. The fund made a positive absolute return but lagged the benchmark.
- Stock selection in information technology was the main detractor from relative returns. **Network International** was the main individual detractor. Another detractor was **Software AG**. The group is still investing in its transition to the cloud, and to a Software as a Service model. This means the anticipated improvement in profit margins has been delayed. Among semiconductor equipment stocks, not owning ASML Holding weighed on relative returns. However, this was partially offset by our position in **ASM International**, which was the leading positive contributor.
- Distributor **Azelis Group** was another detractor. It enjoyed a strong relative run last year as rising inflation contributed to its top line growth. The market is worried of a potential reversal of this trend if inflation eases.
- It was a turbulent quarter for banks amid the failure of US lender SVB and the takeover of Credit Suisse by UBS. The banks we own are not exposed to the same issues but the whole sector came under pressure in March, leaving **Handelsbanken** and **SEB** among the detractors for the quarter.
- In the consumer discretionary sector, not owning LVMH was a detractor as the stock performed well amid China's economic reopening. The portfolio partially benefited from the good performance of luxury goods stocks via our position in **Moncler**.
- Other positive contributors in Q1 included carmaker **Stellantis**. The group announced a €1.5 billion share buyback alongside resilient full-year results.
- Ball bearings manufacturer **SKF** was another positive contributor. It released good Q4 results, showing that

it has now been able to put through price rises to offset the higher cost of components. This has resulted in better profit margins.

Portfolio activity

- We have initiated a new position in **Burberry**. We believe the market is underestimating the potential structural improvements driven by new management and a new designer.
- Another new holding is insurer **Prudential** which we see as an attractive opportunity to play the reopening of China, as travel within Asia rebounds and policy growth accelerates.
- We also bought a new position in **Renishaw** after a failed sale process provided an attractive entry point into this engineering company, at the same time as the cycle rebounds in Asia.
- We exited **SUSE** as we think the announcement of a new CEO lowers the probability of an industry sale. Another sale was **Petershill Partners** as we believe private equity valuations will continue to be impaired.

Outlook/positioning

- Looking ahead, we are fast approaching dividend season in Europe. The central bank and regulators have already approved larger share buybacks and dividends from many eurozone banks. The problems that beset Credit Suisse do not apply to other European banks who, as a cohort, have an abundance of liquidity and solvency.
- Leading indicators have been strong recently in Europe. This could favour the outperformance of more cyclical parts of the market over defensives.
- The eurozone has had a strong start to the year and P/E ratios have moved up accordingly. We now need to look at whether earnings can continue improving but the signs are encouraging here.
- Our Blend approach means we are not relying on taking large style or factor bets, but focus instead on individual mispriced opportunities while retaining diversification.

Calendar year performance (%)

	Fund	Target	Comparator
2022	-14.5	-9.5	-13.1
2021	16.8	25.1	23.0
2020	1.1	-3.3	-0.9
2019	24.0	26.7	24.5
2018	-13.0	-10.9	-12.7
2017	10.0	10.2	10.1
2016	2.1	2.6	-0.2
2015	13.1	8.2	11.1
2014	1.8	6.8	5.6
2013	22.8	19.8	19.8

Source: Schroders, as at 31 December 2022. 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, and compared against the Morningstar Europe Large Cap Blend Equity Category. 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 benchmark. The investment manager will invest in companies or sectors not included in the benchmark in order to take advantage of specific investment opportunities.

Past performance is not a guide to future performance and may not be repeated. 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.

Risk considerations

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. Therefore, the fund may underperform other funds that do not apply similar criteria. The fund may invest in companies that do not reflect the beliefs and values of any particular investor.

Important Information: Marketing material for professional clients only. This document does not constitute an offer to anyone, or a solicitation by anyone, to subscribe for shares of Schroder International Selection Fund (the "Company"). Nothing in this document should be construed as advice and is therefore not a recommendation to buy or sell shares. Subscriptions for shares of the Company can only be made on the basis of its latest Key Investor Information Document and prospectus, together with the latest audited annual report (and subsequent unaudited semi-annual report, if published), copies of which can be obtained, free of charge, from Schroder Investment Management (Europe) S.A. Schroders may decide to cease the distribution of any fund(s) in any EEA country at any time but we will publish our intention to do so on our website, in line with applicable regulatory requirements. For Luxembourg, these documents may be obtained in English, free of charge, from the following link: www.eifs.lu/schroders. For the UK, these documents may be obtained in English, free of charge, from the following link: www.eifs.lu/schroders. The fund has environmental and/or social characteristics within the meaning of Article 8 of Regulation (EU) 2019/2088 on Sustainability-related Disclosures in the Financial Services Sector (the "SFDR"). For information on sustainability-related aspects of this fund please go to www.schroders.com. Any reference to sectors/countries/stocks/securities are for illustrative purposes only and not a recommendation to buy or sell any financial instrument/securities or adopt any investment strategy. **Past Performance is not a guide to future performance and may not be repeated.** The value of investments and the income from them may go down as well as up and investors may not get back the amounts originally invested. Exchange rate changes may cause the value of investments to fall as well as rise. The views and opinions contained herein are those of the individuals to whom they are attributed and may not necessarily represent views expressed or reflected in other Schroders communications, strategies or funds. Information herein is believed to be reliable but Schroders does not warrant its completeness or accuracy. Schroders will be a data controller in respect of your personal data. For information on how Schroders might process your personal data, please view our Privacy Policy available at www.schroders.com/en/privacy-policy or on request should you not have access to this webpage. A summary of investor rights may be obtained from <https://www.schroders.com/en/lu/professional-investor/footer/complaints-handling/>. For your security, communications may be taped or monitored. Issued by Schroder Investment Management (Europe) S.A., 5, rue Höhenhof, L-1736 Senningerberg, Luxembourg. Registered No. B 37.799. Distributed in the UK by Schroder Investment Management Ltd, 1 London Wall Place, London EC2Y 5AU. Registration No 1893220 England. Authorised and regulated by the Financial Conduct Authority. Information for Switzerland: Schroder Investment Management (Switzerland) AG is the Swiss representative («Swiss Representative») and Schroder & Co Bank AG is the paying agent in Switzerland of the Luxembourg domiciled Schroder International Selection Fund. The prospectus for Switzerland, the key information documents, the articles of association and the annual and semi-annual reports may be obtained free of charge from the Swiss Representative.