

Schroder ISF* Global Recovery

Fund Managers: Simon Adler and Liam Nunn | Fund update: Q3 2025

Performance overview

Global equities gained in Q3. The fund outperformed the MSCI World index.

Drivers of fund performance

The standout performer in Q3 was global specialty retailer and distributor of professional beauty supplies **Sally Beauty** with shares surging over 75%. The company delivered a strong earnings report that highlighted operational improvements and strategic progress. Its ability to grow profitability despite modest revenue pressure set it apart in a challenging retail environment, making it a key driver of the fund's overall performance.

Chinese tech giant **Baidu** was another strong performer. This can be attributed to the market finally recognising the significant valuation discount. Previously, the company was trading near its tangible book value, with its market capitalization almost entirely covered by its substantial cash and investment holdings. This valuation effectively assigned zero value not only to its highly profitable core business but also ignored the immense potential of the exciting assets hidden within the company, such as its advanced initiatives in autonomous mobility and artificial intelligence.

Banks **Standard Chartered** and **Société Générale** performed well. In general, banks have continued to find appeal given the favourable rate backdrop for net interest margins, and attractive shareholder returns boosted by significant share buybacks. Asia-focused Standard Chartered has been reporting strong financials driven by growth in its wealth business and strong performance in its markets division. It also announced a further significant share buyback programme following its Q2 results. In the case of Société Générale, we established the position in November 2024, when we felt the market was being 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 Société Générale trading at a deep discount to tangible book value. However, management has since outlined a credible path to improved profitability, including merging bank networks to reduce costs, scaling up digital banking, disposing of non-core assets, and benefiting from higher interest rates.

Luxury goods business **Kering**, which we added in the second quarter, is also a key contributor. The shares had suffered as Gucci – the key earnings engine – was experiencing weaker sales and lower margins, and suffering from some strategic missteps. The firm is undertaking a reset however, with plans to reorient toward high-end offerings and rationalise the store footprint. Despite some pressure on the luxury goods market globally, we felt that the market was underestimating the brand's resilience and long-term earnings power. Since then, a new CEO has been appointed, and the shares have rallied strongly.

Our position in US omni-channel retailer **Macy's** was positive. The company recently announced better than anticipated results from its turnaround plan. CEO, Tony Spring, has implemented a strategic plan that focuses on driving growth through initiatives like closing underperforming stores, investing in key locations, and enhancing product offerings.

Anglo American performed strongly. At the beginning of September, they announced a merger with Teck resources, which would increase the copper exposure to 70% of the combined business. Copper is highly prized because it is seen as necessary for the energy transition and is in limited supply.

Shares in **Samsung Electronics** continued their impressive rebound driven by a faster-than-expected recovery in memory chip prices. Additionally, the company is benefiting from the AI boom, as its advanced memory chips have gained traction in data centres and passed key quality tests for use in Nvidia's systems.

On the negative side, it was the companies we do not own that dominated the underperformers. Not owning US tech giants Alphabet, Apple, Nvidia, and Tesla was a drag on performance as they all outperformed during the quarter.

British advertising group **WPP** was the largest detractor. It has been subject to pressure on revenues and margins, concerns about competitive positioning compared to peers, and structural fears over the disruptive potential of AI. However, a new CEO, incoming from Microsoft, now has the potential to refocus the business, and the ad agency model has typically proven a lot more resilient to technological change than the market seems to assume. Trading on a very cheap multiple, we took the opportunity to add to our position on weakness.

Portfolio activity

We initiated one new position during Q3. **Ambev**, the largest brewer in Latin America, producing and distributing beer, soft drinks, and other beverages under brands like Brahma and Skol.

We believe the recent sell-off in Ambev presents a compelling opportunity to invest in a dominant Latin American brewer at an attractive valuation. While the shares have been pressured by weak Brazilian volumes due to increased competition and macro headwinds, as well as a rising tax burden, these concerns appear to be more than priced in. Ambev retains significant competitive advantages through its unrivalled distribution network and scale and has already lowered its margins to defend its market share. With the company trading on a high single-digit multiple, offering a dividend yield over 7%, and backed by a strong net cash balance sheet, the current price offers a highly attractive entry point into a market leader.

We sold out of British luxury fashion house **Burberry** after a strong share price recovery.

Following a comprehensive 'blank sheet' review in August, we made the difficult decision to exit our position in **Intel**. This was driven by three primary concerns: a deteriorating balance sheet where cash generation is failing to cover ambitious capex plans; an increase in structural risk, as the investment case has shifted from a simple recovery in its core business to a more binary and speculative bet on building a successful third-party foundry; and heightened geopolitical risk, where a potential US government stake could lead to capital misallocation by prioritising national objectives over shareholder returns. Having reappraised the range of outcomes, we concluded the balance of risk and reward was no longer sufficiently compelling to warrant our investment.

Our investment in **Walgreen-Boots** proved to be a mistake, with the shares ultimately taken private at a loss. The business faced a trio of severe challenges that eroded our original investment case. First, the core US retail pharmacy business suffered significant margin compression, squeezed between the immense pricing power of a consolidated Pharmacy Benefit Managers and rising labour costs. A strategic attempt to counter this by investing heavily in ancillary healthcare services, most notably VillageMD, failed to generate profits and instead became a major drain on capital. Finally, this combination of weakening profitability and a larger-than-anticipated opioid litigation settlement critically stretched the balance sheet. In August, Sycamore Partners – a private equity group – completed their acquisition of the business at a disappointingly low share price.

Looking ahead

While there has been a lot going on in markets and portfolios, and the opportunity for value investors is as exciting as ever, we would like to devote this quarterly letter to giving our clients a team update. During the quarter, Simon Adler was promoted to Head of Value Equities. Under Simon's leadership, we have renewed our mission statement and overarching vision. We've set ourselves a high bar. To achieve this requires a team culture grounded in excellence and teamwork, where standards are high, humility constant, and improvement a continual and shared endeavour.

Our mission is to be a world class team who deliver the best returns to our clients by focusing on authentic value investing. We seek to do that with a culture of excellence, teamwork and improvement and an environment where we all love our work.

The mission explains itself. The focus is on our clients and your returns. It also recognises that to achieve it we need to enact the vision that is set out below.

Our vision is to be the best value team. The best to invest with, the best to work for and the best at communicating. We expand on each of these pillars below.

- a) *The best to invest with* – creating lasting value for you, our clients, whilst continually raising standards. We will do this by delivering consistent style discipline (authentic value), forensic and world leading analysis to weed out value traps, deliver benchmark unaware portfolio construction and improve consistently.
- b) *The best to work for* – Be an elite team where our people thrive, support each other and are inspired to improve. This will make work enjoyable and should create a team that works together, for each other and where everyone is seeking to improve and be the best.
- c) *The best at communicating* – Be innovative and original in our communications, known for openness, honesty & candour.

We are absolutely not re-inventing the wheel. Rather, we are building upon the deep value heritage that has been nurtured at Schroders for more than 50 years; a heritage defined by discipline, patience and teamwork. Our renewed mission and vision are about sharpening that legacy. We are taking everything that has made this team successful — its authenticity, its collaboration, its long-term mindset — and push it to an even higher level. By doing so, we aim to strengthen the trust you place in us and continue delivering exceptional outcomes for you, our clients, for decades to come.

New joiners

During the quarter, we were also pleased to announce two high-calibre appointments that will strengthen the team's commitment to rigorous, high-quality investment analysis. The appointments were made following a long and comprehensive interview process that started in March and demonstrate Schroders' ongoing commitment to our Value franchise.

Graham Shircore has been appointed as a UK-focused Investment Analyst, bringing more than 20 years' equity investment experience, most recently as Investment Team Leader overseeing a long-term, Value-driven investment philosophy at Phoenix Asset Management Partners. Prior to this he held tenures at Rothschild & Co and Aviva Investors. He will begin in early September.

Steve Woolley will also join as a UK-focused Investment Analyst in November, bringing 17 years' Value investment experience dating back to his appointment as a Value equities analyst at Investec Asset Management, now Ninety One, in 2008. Most recently, he was Head of Research on Ninety One's Value equities team, having also been a Portfolio Manager in the Value Equities team.

These appointments affirm Schroders commitment to fundamental Value investing. We will continue to invest in our well-resourced team of highly skilled Value investors including developing future talent and through targeted hiring, ensuring a strong bench that will continue to deliver long-term value for clients.

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	5.0	18.7	11.5	7.1
2023	18.8	23.8	11.5	15.7
2022	-10.2	-18.1	-6.5	-11.4
2021	21.5	21.8	21.9	17.2
2020	-5.8	12.3	-1.2	4.5
2019	20.3	27.7	21.7	19.9
2018	-14.0	-8.7	-10.8	-13.8
2017	19.5	22.4	17.1	21.2
2016	16.1	7.5	12.3	7.7
2015	-17.1	-0.9	-4.8	-3.6

Source: Schroders, net of fees, bid to bid, with net income reinvested. A Acc as at 31 December 2024. The target benchmark is MSCI World Net Return USD. The fund's performance should be assessed against its target benchmark being to exceed the MSCI World (TR) index and compared against the MSCI World Value (Net TR) index (comp.1) and Morningstar Global Large-Cap Value Equity Category (comp.2).

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.
- **China risk:** If the fund invests in the China Interbank Bond Market via the Bond Connect or in China "A" shares via the Shanghai-Hong Kong Stock Connect and Shenzhen-Hong Kong Stock Connect or in shares listed on the STAR Board or the ChiNext, this may involve clearing and settlement, regulatory, operational and counterparty risks. If the fund invests in onshore renminbi-denominated securities, currency control decisions made by the Chinese government could affect the value of the fund's investments and could cause the fund to defer or suspend redemptions of its shares.
- **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 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.
- **Emerging markets & frontier risk:** Emerging markets, and especially frontier markets, generally carry greater political, legal, counterparty, operational and liquidity risk than developed markets.
- **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.

Please refer to the prospectus of the UCITS and to the KID/KIID before making any final investment decisions.

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