Schroders

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Schroder ISF* Global Recovery

Fund managers: Simon Adler and Liam Nunn: Q1 2025

Performance overview

Global equities fell in Q1. The fund significantly outperformed the index.

Drivers of fund performance

- The fund outperformed the MSCI World index. This outperformance was driven by both stock selection and, to a lesser extent, sector allocation. Stock selection was notably positive within the financials, communication services and consumer discretionary. The underweight in information technology was also very beneficial.
- French bank **Société Générale** was the largest individual contributor to relative returns. We established the position in November 2024, when we felt 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.
- **Alibaba** performed well as sentiment quickly improved, with the share price re-rating from a low base as the market anticipates a boom in AI demand in China. Our avoidance of overvalued US "Magnificent 7" stocks—most notably Apple, Tesla, and Nvidia—also boosted relative returns.
- Other strong performers included **SES**, a satellite business with defence exposure that had previously announced a pivot to military network provision.
- In communication services, our positions in telecoms groups **BT Group** and **Orange** added value. Orange reported strong Q4 results and raised its 2025 guidance.
- 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

- We initiated a new position in car parts supplier **Aptiv**. It has a diversified geographical revenue base, although significant exposure to China has weighed on the shares. Investors are also somewhat wary about the planned spin-off of the legacy electrical distribution systems segment but this should allow Aptiv to focus on higher growth areas. The majority of their products are power-chain agnostic. We think the balance sheet is in good shape. Meanwhile, we sold out of **Renault** given we were adding automotive exposure via Aptiv. We already reduced the size of our position in Renault in Q4 2024 given our exposure to **Schaeffler**, **Lear** and **VW** – all within automotive.
- Another new position is steel manufacturer and supplier **Ternium** which operates in the US and various countries across Latin America. We see it as a well-run business with a sensible balance sheet. Ternium has gained effective control over Brazilian business Usiminas which has struggled but Ternium is changing the management team.
- In the food retail sector, we initiated a position in **Carrefour**. We think it looks to be the stand-out cheapest company in the sector as a tough French pricing backdrop and difficult trading environment in Brazil (where rising interest rates are squeezing consumers and a weakening real is impacting Carrefour's reported profits) has weighed on near-term earnings. Below the surface, however, we see encouraging signs of improvement; with greater capital expenditure discipline and improved cash conversion in recent years helping to underpin strong cash returns to shareholders. With the shares languishing on a single digit multiple of earnings and offering an estimated forward dividend yield of above 7%, the risk/reward trade-off looked attractive to us. Meanwhile, we sold the position in UK supermarket group **Tesco** given the recovery in the valuation.
- Another sale is Japanese firm **DeNA**. It is a good case study in the importance of patience in value investing. It had been dismissed as dead money for a long time, but the balance sheet was rock solid and there was always a chance it would see a turnaround in gaming fortunes given the inherently

*Schroder International Selection Fund is referred to as Schroder ISF throughout cyclical industry dynamics. The shares surged to an eight-year high in the fourth quarter of 2024, and we took profits on valuation grounds.

– Another exit was **Barclays**. The shares have performed well amid a combination of momentum and expectations that interest rates would remain higher for longer. The discount to tangible book value has narrowed and we elected to sell to control overall risk in the financials sector.

Looking ahead

– Despite the tariff starting gun now having been fired, there's still a massive amount of noise out there. It's like a race we all thought might happen has begun but no one's quite sure of what the course is.
– The scale of the tariffs (ahead of most consensus) as initially announced is alarming for many companies. Our view, as with many macro variables, is that it's not clear how this will play out long term. At the time of writing, the tariffs on many countries have been paused for 90 days pending negotiations. Ultimately, this may create as many new opportunities as threats for businesses (e.g. globalised opportunities ex US).
– The consumer discretionary sector has suffered the brunt of the selling – the bet being that consumers who have already been under pressure will baulk at the price rises they experience when they go to buy their favourite cars, clothes and curios. However, many of these brands have survived and thrived over decades and we think they will be more enduring than some investors believe. Additionally, a lot of these businesses, for example, global autos, were already heavily discounted ahead of the news and conservative valuations are proving, at least initially, to be more defensive than some had expected.
– Of course, the big call here is on US vs international stocks. Is this the catalyst that tips future stock market returns away from the US and back towards international for the first time in two decades? President Trump's policies seem obviously stagflationary for the US and could see the rest of the world potentially coming together to wean themselves off US consumption. We are once again reminded that, when it comes to investing, there's nothing stranger than the truth.

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.

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).

The majority of the fund's investments may be components of the target benchmark. The investment manager invests on a discretionary basis and is not limited to investing in accordance with the composition of the target benchmark. The investment manager will invest in companies or sectors not included in the target benchmark in order to take advantage of specific investment opportunities. The target benchmark has been selected because it is representative of the type of investments in which the fund is likely to invest and it is, therefore, an appropriate target in relation to the return that the fund aims to provide. Any comparator benchmark has been selected because the investment manager believes that the benchmark is a suitable comparison for performance purposes given the fund's investment objective and policy.

Risk considerations

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.

Emerging markets & frontier risk Emerging markets, and especially frontier markets, generally carry greater political, legal, counterparty, operational and liquidity risk than developed markets.

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.

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.

Stock connect risk The fund may be investing in China "A" shares via the Shanghai-Hong Kong Stock Connect and Shenzhen-Hong Kong Stock Connect which may involve clearing and settlement, regulatory, operational and counterparty risks.

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.

Market risk The value of investments can go up and down and an investor may not get back the amount initially invested.