

## Schroder ISF\* Global Recovery

Fund managers: Simon Adler and Liam Nunn: Q4 2024

## Performance overview

Global equities fell slightly in Q4. The fund underperformed the index.

## Drivers of fund performance

- Stock selection in several sectors, notably communication services, weighed on relative returns.
- Within communication services, the main individual detractor was Japanese advertising firm **Dentsu**. Latest quarterly results showed good growth in Japan but disappointing progress in the Americas. Dentsu is due to unveil its mid-term plan at the full-year results in February.
- In information technology, our underweight allocation was a detractor from relative performance.
- In consumer discretionary, not owning Tesla was negative for relative returns with the carmaker's shares performing strongly following Donald Trump's Presidential election win. Watches specialist **Swatch Group** was also among the detractors. The luxury goods sector is suffering from weaker consumer demand, notably from China.
- Within industrials, **Stanley Black & Decker** weighed on relative performance. Shares of the power tools manufacturer fell in the wake of Q3 results. The company reported a rise in Q3 profits but narrowed its guidance for 2024 earnings, cutting the top end of the expected range.
- Another detractor was conglomerate **Bayer** which reported a €4 billion loss, cut its profit guidance for 2024 and said the outlook for 2025 is "muted".
- On the positive side, the leading individual contributor was Japan's **DeNA** amid good operational performance for its games business.
- **Burberry** also added value. 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 initiated a new position in chemicals group **LyondellBasell Industries**. Its shares have come under pressure due to several issues including excess supply in the US market and high gas prices in Europe affecting input costs. The result is that profits are at a cyclical low. We think the balance sheet is sufficiently resilient to weather this tough period and note that c.70% of free cash flow goes to shareholders.
- Another new holding is **Rohm**, a Japanese manufacturer of power and analogue semiconductors. It is facing increased competition from China as well as a cyclical downturn which is hitting Rohm while it is in the middle of a major capital expenditure programme to build out its silicon carbide capacity. However, the balance sheet remains in good shape, and we think this is a business with some long-term growth potential that's being marked down by the market on predominantly cyclical concerns.
- We built a position in automotive supplier **Lear Corporation** which, like Rohm, has seen its shares fall as the sector has been out of favour with investors. Lear's product portfolio is mainly dominated by seating and wiring, meaning it is less exposed to the shift to electric vehicles than many suppliers. We have exited **Schaeffler**, a supplier of rolling element bearings to the automotive and aerospace industries.
- We initiated a new position in German automaker **Volkswagen**. Shares have fallen following a recent profit warning. European carmakers are facing increased competition from Chinese carmakers, especially in the field of electric vehicles. There is potentially scope to cut research & development costs to benefit margins and cash flows. The company has a history of making decent returns across the cycle and we think the share price is now sufficiently attractive to build a position.
- Another new holding is French bank **Société Générale**. The market has generally been pessimistic on French banks given the headwinds of regulated deposit bases, punitive caps on loan pricing and inflexible labour market. Current

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

political turmoil is also unhelpful. However, management has outlined a path to improve profitability over the coming years. This includes merging bank networks to reduce costs, scaling up digital banking, disposing of non-core assets, and the lagged benefit of higher interest rates.

- We sold out of **Citigroup** given we now see Société Générale as offering the more attractive risk/reward trade-off.

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.

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