

Schroder ISF* Global Recovery

Fund Managers: Simon Adler and Liam Nunn | Fund update: Q2 2025

Performance overview

Global equities gained in Q2. The fund underperformed the MSCI World index.

Drivers of fund performance

Relative to the benchmark, the fund's underweight position to the US, and US technology in particular which performed very well, was responsible for the underperformance. Not owning US tech giants Nvidia and Microsoft were among the biggest detractors to relative performance over the quarter, as their share prices increased by 45% and 32% respectively.

Of the companies we do own, US brewer **Molson Coors** detracted from returns in the second quarter. The company reported a challenging first quarter, with sales and earnings per share declining year-on-year. Molson Coors revised its full-year 2025 guidance, now anticipating a low single-digit decline in revenue and underlying income before income taxes. While Molson Coors isn't likely to be a fast-growing business, we are also not convinced it's inevitably set to see a steep decline in earnings power and cash flow on a medium-term view either – which it would appear to be implied at the current share price. We therefore believe the shares are undervalued with plenty of upside potential. The \$2 billion share repurchase program is ongoing, which further enhances shareholder value.

Global workforce solutions company **Manpower Group** saw its share price fall after reporting lower than expected quarterly adjusted earnings and a decline in revenue for the first quarter of the year. US based chemical company **LyondellBasell** was another detractor after reporting lower-than-expected quarterly profits due to maintenance downtime and reduced volumes in key segments serving industries like automotive and construction. Shares in pharmaceutical company **Bristol-Myers Squibb** struggled in the second quarter, challenges such as potential tariffs on pharmaceutical imports and concerns about innovation and patient access to medicines.

Luxury brand **Burberry** was the largest individual contributor to returns, with the shares up 50% over the quarter. Its full year results, announced in May, were well received by the market. Cash flow modestly positive, although this was clearly helped by reducing inventory

by discounting pricing and cutting capital expenditure. While trends are improving, Burberry is still a leveraged mono-brand retailer, and our position size reflects that.

Korean banks **KB** and **Shinhan** experienced significant share price increases in the second quarter. In line with the Korean government's 'Corporate Value-Up Program', both companies are taking shareholder friendly actions to try and close the valuation gap between themselves and their global peers. This policy encourages companies to enhance corporate governance and increase shareholder returns, and both KB and Shinhan announce plans to pay higher dividends and increase share buybacks.

German multinational automotive parts manufacturer, **Continental** performed well. The company is undergoing significant restructuring with a focus on turning its ContiTech division into an independent entity to become a pure-play tire maker. The CEO, Nikolai Setzer, emphasized the need for agility in response to market volatility and highlighted the tire business as the most profitable part of the company.

French bank **Société Générale** added value. 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. 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.

Portfolio activity

We invested in **Hewlett Packard Enterprise** (HPE) after a series of setbacks drove the shares to what we believe is an overly pessimistic valuation. Last year they announced, to a lot of fanfare, a deal to acquire Juniper, which management made that the lynchpin of their medium-term strategy with big potential cost synergies that could drive earnings growth in the networking side of their business. This deal was blocked by the regulator in early 2025 on competition grounds. Disappointment over the Juniper deal was compounded by a server business profit warning in Q1. The negative sentiment worsened after fresh US tariff announcements, which particularly affect HPE given its Asia-centric supply chain.

The result of all this provided an attractive entry point as we felt the share price was imply margins would never recover. In June, HPE reported strong Q2 earnings, and the company's AI server revenue reached \$1 billion in Q2, up from \$900 million in the previous quarter. The \$14 billion acquisition of Juniper Networks also received clearance from the U.S. Department of Justice after a settlement, boosting the share price.

We bought **Samsung Electronics**. The market has turned sharply against Samsung, as investors fret over it falling behind in cutting-edge memory technologies, particularly after missing the high-bandwidth memory (HBM) surge led by Hynix. The foundry business continues to lag peers, compounding concerns about Samsung's technology leadership. Broader geopolitical worries, including fears about the Trump administration's impact on global semiconductor demand and supply chains, have added fuel to the fire. Yet, this looks like an overreaction. Samsung still commands a leading position in DRAM and NAND, and its financial position is rock solid, with effectively no debt and ample liquidity. Despite this, the shares are now trading at levels that suggest a fundamental loss of competitiveness – well below tangible book value and far beneath historical profitability multiples. For a business of this scale and quality, that seems too harsh.

We added **Puma** to the portfolio. It has seen a dramatic reversal in fortunes over the past couple of years. Once an outperformer in global sportswear, it now finds itself squeezed between larger players like Nike and Adidas and newer, hotter brands like Hoka and On. Sales growth has stalled, and margins have declined, with the market questioning whether the brand still has relevance. Recent profit warnings and a step down in margin targets have added to the gloom, and looming US tariffs further clouded the outlook given the company's Asian manufacturing footprint. But there are signs of a strategic reset: a seasoned new CEO from Adidas takes over this summer and a major cost saving plan is underway. The share price implies that Puma will be permanently stuck in a low-margin rut, yet this seems at odds with the brand's long-term heritage, strong wholesale relationships and historical resilience. Trading at a record low valuation, sentiment seems washed out – and with a clean balance sheet, it wouldn't be a stretch to imagine it drawing interest from strategic buyers (although this is not part of our investment case).

We bought luxury branded goods business **Kering** in the second quarter. Its shares have suffered as Gucci – the group's key earnings engine – has gone through a rough patch. Gucci accounts for half of group sales but an even larger share of operating profit, and its performance has been weak over the past 18 months, with sales declining and margins hitting a multi-decade low. While part of this reflects broader softness in the luxury market, there's a clear admission from management that strategic missteps played a role – particularly an overemphasis on fashion-led, entry-level products that

diluted the brand. A reset is underway, with plans to reorient toward high-end offerings and rationalise the store footprint, especially in China. The luxury sector more broadly is facing a pricing reset after years of aggressive hikes, so some pressure is likely to be structural. Still, we think the market is underestimating the resilience of the Gucci franchise. Even if future profitability settles well below past peaks, the shares look appealing. The balance sheet is less pristine than ideal, partly due to mistimed purchases of expensive flagship real estate, but steps are being taken to de-lever through asset sales. While there are risks, we think expectations now reflect an overly pessimistic view of Gucci's long-term earnings power.

Halliburton was new to the screen. Halliburton's share price has come under pressure amid renewed concerns over the US shale capex cycle. Around half of its business is tied to onshore US production, and with oil sentiment weakening following Trump's tariff push and OPEC's output increases, the market is pricing in a sharp and prolonged downturn. But we think the resilience of the company is being overlooked. Halliburton has consistently generated positive free cash flow through multiple cycles, with working capital often acting as a buffer during downturns. Its debt profile is well structured, with no major maturities until well beyond 2030. After reducing our oil exposure in recent years, the position had become quite small, but given the sector's renewed volatility, this felt like a good moment to rebuild exposure in a name with strong fundamentals and a proven track record of weathering energy cycles.

We added to a number of companies that have been weak and where we think market sentiment has become overly negative. This included **Sally Beauty**, **Pfizer**, and **ROHM** – all stocks that have underperformed but where we continue to see long-term value. These additions were funded by trimming some of the more defensive areas of the portfolio that have held up relatively well. In particular, we took profits in telcos like **BT** and **Verizon**, staples such as **Molson Coors**, and insurer **Ageas**. This rotation reflects a shift toward names with more upside as we look to lean into areas where expectations are low and valuations already discount a lot of bad news.

Looking ahead

Was the DeepSeek moment really a moment?

On January 27th, Chinese company DeepSeek released an AI model blew a whale-sized hole in the market's narrative that the Magnificent 7's (Mag7) massive capex creates an unassailable moat. DeepSeek has now shown it's possible to produce a state-of-the-art AI using less-powerful chips, less energy, and much less up-front investment.

The release triggered the largest one-day destruction of capital from a single company in history: the market wiped \$590 billion off Nvidia's market capitalisation (the stock was down 17% on the day). Chinese companies have been the dark destroyer of margins in other

sectors such as Electric Vehicles and Solar. Was this the wake-up call that they are coming for AI too?

"Today's news lines tomorrow's wastepaper bins"

In the 1999 box office hit *Notting Hill*, struggling bookstore owner William Thacker utters this line to self-involved actress Anna Scott, urging her to see the bigger picture. It's a more recent (though *Notting Hill* hit our screens 26 years ago!) twist on the ancient Persian proverb: "This too shall pass."

But the market, in no mood for metaphors, took this all too literally. By the very next day, DeepSeek was old news. Nvidia's shares rebounded sharply, recovering nearly half of the prior day's losses. Within just two weeks, it had regained all lost ground. January 27th was nothing but an aberration.

Much has happened in the world since, but on the evidence of the second quarter the Mag7 trade is in rude health. Nvidia was up 45% in the second quarter and made headlines when its market capitalisation breached the \$4 trillion mark. Remember the fanfare when Apple hit \$1 trillion in 2019? We really do live in a different world now.

To put \$4 trillion in perspective: it could buy the entire equity markets of the UK, France, Germany, or India, or more than half of Japan's. Prefer sectors instead? After buying the entire global energy sector, you'd still have \$400 billion left, enough to make a dent in the global materials sector too.

Why does any of this matter?

Because the largest stocks in the index are very rarely the best place to invest. Over the long run, betting on the biggest names has been a very poor strategy that has materially underperformed the wider market. The forces of creative destruction make it very difficult to stay on top, and this is why the equal-weighted index outperforms the cap-weighted index over the longer time periods. Last decade's winners tend to do terribly the next. Narratives change. Markets move on.

The past decade has defied that trend. With the rise of the Mag7, global equity markets have become increasingly concentrated – a trend has gone truly exponential in the wake of the COVID and the AI boom. Market concentration is now higher than at the 2000 peak. The stock market is taking an extremely firm view that it knows who the long-term structural winners are – the Mag7 – they are increasingly the only game in town. The leadership of the market today has become extraordinarily narrow. Following the benchmark via an index tracker used to be a way to diversify and reduce risk. No one can honestly claim that is true today.

But this time it's different?

Yes. It is different from dot-com. The dot-com bubble was driven by sky-high expectations of future earnings that never materialised. The Mag7 expansion, by

contrast, has been underpinned by actual, rapidly growing earnings.

But – and it's a big but – valuation matters.

Today's market has more in common with the Nifty Fifty bubble of the 1970s than with the dot-com mania of the late '90s. In the 1970s, the Nifty Fifty traded at 42x earnings, more than double the S&P 500. The stocks were expensive, sure, but they were also delivering stellar earnings growth, and everyone predicted they would continue to do so the valuations didn't matter. And the predictions were right. Earnings growth was stellar as forecast, but the shares still cratered because the starting valuations were too high.

No matter how strong the growth story, how superior the business model, or how transformational the technology, **Price. Always. Matters.** A great company ≠ a great investment.

So, what are we to do?

Keep off the dance floor. Accept FOMO. Don't think in quarters.

Focus on protecting and growing client capital over the long term. Today's market concentration is unprecedented. Any student of market history knows that excessive crowding into narrow segments of the market never ends well.

It happened with the Nifty Fifty. It happened with Japan in the 1980s. It happened with tech in the late '90s. And we have no doubt the AI hype train will eventually derail just as messily. We don't know what the catalyst will be, but we do know this:

No business is so amazing that it can't become a dangerous investment at the wrong price.

Every generation likes to think it is smarter than the one that went before it. It is easy to look back at the markets of the '70s, the '80s or the late '90s and scoff "That was crazy! What were they thinking?!" We like to think we are smarter. We're not so sure – based on the evidence of what markets look like today – that we really are.

The good news is that it is this persistence of human behaviour that gives us confidence that value investing will ultimately prove its worth.

The founding father of value investing Ben Graham put it nicely himself when – towards the end of his life he was asked by an interviewer to sum up what he'd learned about the stock market over his long investment career. And he said something very simple that strikes us as very prescient in the current environment...

"The more it changes the more it's the same thing"

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.

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 can be obtained in English at www.schroders.lu. For the UK, these documents can be obtained in English, free of charge, from the Facilities Agent Schroder Investment Management Ltd, 1 London Wall Place, London EC2Y 5AU or at www.schroders.co.uk. This fund does not have the objective of sustainable investment or binding environmental or social characteristics as defined by Regulation (EU) 2019/2088 on Sustainability-related Disclosures in the Financial Services Sector (the “SFDR”). Any references to the integration of sustainability considerations are made in relation to the processes of the investment manager or the Schroders Group and are not specific to the fund. For the UK only: This product is based overseas and is not subject to UK sustainable investment labelling and disclosure requirements. 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/. Issued by Schroder Investment Management (Europe) S.A., 5, rue Höhenhof, L 1736 Senningerberg, Luxembourg. Registered No. B 37.799. For your security, communications may be taped or monitored. 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.