

# Schroder ISF\* Global Recovery

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## Performance overview

Global equities posted strong gains in Q1. The fund also achieved a positive return but lagged the index.

## Drivers of fund performance

The portfolio lagged the index in Q1. Stock selection in industrials and communication services weighed on relative returns. Stock selection in financials added value.

The portfolio's zero exposure to chipmaker NVIDIA and social media group Meta Platforms was detrimental for relative performance.

Our position in tyre maker **Continental** weighed on relative returns. The firm's outlook statement was weaker than some in the market had hoped.

Broadcaster **AMC Networks** was another detractor. Like many TV companies, AMC is adjusting to the switch to streaming services and faces a tough environment for the advertising market. The group's Q4 results showed a 1% rise in streaming subscribers.

Several of our banking sector holdings were among the leading individual contributors. These included **KB Financial**, **NatWest Group** and **Citigroup**. Banks continue to look relatively attractively valued and to announce sizeable returns to shareholders. NatWest said it plans to buy back up to £300 million of its own shares in 2024. The group confirmed that interim CEO Paul Thwaite will remain in post on a permanent basis.

A positive contributor within the communication services sector was **Nippon Television Holdings**. The company announced its fiscal Q3 results and said it will buy back shares worth 7 billion yen.

The portfolio also benefited from its lack of exposure to Apple or Tesla.

## Portfolio activity

We have initiated a new position in supermarket group **Ahold Delhaize**. We see it as a good quality food retailer with a strong balance sheet. Despite being European listed, Ahold derives c.70% of profits from the US, offering differentiation versus other European food retail holdings. The valuation has come under pressure amid the remodelling of Stop &

Shop stores in the US, as well as weaker margins in Europe due to rising energy costs and weaker volume/mix. Strikes in Belgium over the company's decision to franchise some stores have also been a negative recently. However, the longer-term structural threat from Amazon and online food retail appears to have receded.

- We also bought a new holding in US consumer electronics retailer **Best Buy**. It has defended its business well against the structural threat from Amazon. There is a debate to be had over whether electronic items bought during the pandemic will soon be replaced, which would be beneficial for Best Buy, or whether the pandemic was a one-off boost to sales, which could prove negative. But we view the valuation as attractive and think the balance sheet is in sufficiently good shape.
- Another new position is **John Wiley**, a US publishing company that focuses on academic publishing and educational materials. Shares have been weak. The company has become somewhat sprawling after a period of acquisitions. However, John Wiley now plans to dispose of non-core assets and re-focus on the core business which should prove beneficial in the long term.
- We initiated new positions in South Korean banks **KB Financial Group** and **Shinhan Financial Group**. Both look attractively valued. Gross loan growth has been very strong and is likely to slow, partly because both banks have expressed a desire to improve returns to shareholders. We see Shinhan as likely to make higher returns while KB has a modestly stronger capital position.
- We have exited **Micron Technology** which has been a strong performer in recent months and has reached our estimate of fair value. Another exit was Japan's **Citizen Watch**. Again, this is because the shares have reached fair value. Gains have been supported by good business performance and news of a share buyback.

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

## Calendar year performance (%)

Year	Fund	Target**	Comp. 1	Comp. 2
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
2014	11.9	4.9	3.7	1.2

Source: Schroders, net of fees, bid to bid, with net income reinvested. A Acc as at 31 December 2023. 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.

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

**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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