

Schroder ISF* European Smaller Companies

Fund Managers: Luke Biermann and Martin Stockner | Fund update: Q1 2024

Performance overview

- European smaller companies gained in Q1.
- The fund underperformed the benchmark.

Drivers of fund performance

- The portfolio generated a negative return in the quarter, underperforming the MSCI Europe Small Cap index which advanced.
- Non-performing loan manager **DoValue** was the main individual detractor. This was due to the continuation of adverse industry trends. There has been no growth in the formation of new non-performing loans, despite high rates and a slower economy. This, coupled with the company having to refinance half of its outstanding debt, led to a sell-off. We have sold the position.
- Meal kit supplier **HelloFresh** was a detractor. The meal kit industry, particularly in the US which is a key market for HelloFresh, is going through a challenging period. Additionally, HelloFresh issued a profit warning.
- Payments group **Worldline** also weighed on relative performance. Weak discretionary spending in Europe is a headwind, given that it receives higher fees for discretionary transactions than for staples. This is another position that we have exited.
- Another detractor was **Meyer Burger Technology**, a manufacturer of solar cells and modules. Pricing has been negatively affected by imports into Europe of low-cost products from China. We have sold our holding.
- On the positive side, **Saab** was the leading individual contributor. As a defence company it is benefiting from European governments increasing their spending on defence as a percentage of GDP due to the war in Ukraine. The European Union is also putting together more support for governments and industry, for example in terms of planning capacity. Europe has to make up for 30 years of underinvestment in its defence capabilities.

Portfolio activity

- A change that occurred just after the period under review was the departure from Schroders of portfolio manager Hannah Piper. The portfolio will now be managed by Luke Biermann and Martin Stockner.
- As a result of the transfer of portfolio management, there have been several changes to the portfolio, in addition to those highlighted in the previous section.
- The fund's investment objective is unchanged.

Outlook/positioning

- The new management team will have a greater focus on quality characteristics when identifying holdings for the fund.
- Markets have begun to anticipate interest rate cuts but it remains unclear when these might commence, especially against a backdrop of strong labour markets in the US and Europe. The impact of tighter financing conditions is perhaps still yet to be felt in full on consumer and corporate spending. Meanwhile, there continue to be risks elsewhere, notably weak economic activity in China.

Calendar year performance (%)

Year	Fund	Target
2023	8.1	14.2
2022	-26.1	-22.9
2021	9.6	23.4
2020	13.7	7.8
2019	13.7	29.3
2018	-22.1	-14.1
2017	21.6	17.6
2016	3.7	2.9
2015	22.3	21.7
2014	2.5	5.1

Source: Schroders, as at 31 December 2023. Fund performance is net of fees, NAV to NAV with net income reinvested, EUR C Acc shares. Please see factsheet for other share classes. The fund's performance should be assessed against its target benchmark being to exceed the MSCI Europe Small Cap (NDR) index. The fund's investment universe is expected to overlap materially with the components of the target benchmark. The investment manager invests on a discretionary basis and there are no restrictions on the extent to which the fund's portfolio and performance may deviate from 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.

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

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.

Currency risk: The fund may lose value as a result of movements in foreign exchange rates.

Concentration risk: The fund may be concentrated in a limited number of geographical regions, industry sectors, markets and/or individual positions. This may result in large changes in the value of the fund, both up or down.

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.

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.

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.

IBOR: 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.

Smaller companies risk: Smaller companies generally carry greater liquidity risk than larger companies, and they may also fluctuate in value to a greater extent.

Sustainability risk: The fund has environmental and/or social characteristics. This means it may have limited exposure to some companies, industries or sectors and may forego certain investment opportunities, or dispose of certain holdings, that do not align with its sustainability criteria. Therefore, the fund may underperform other funds that do not apply similar criteria. The fund may invest in companies that do not reflect the beliefs and values of any particular investor.

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