

# Schroder European Small & Mid Cap Value Fund (ex UK)

## Quarterly Report

Second quarter 2024

### Portfolio Analysis

#### Market Review

**Global stock markets advanced in Q2**, but less pronounced compared to the very strong first quarter. US shares gained in Q2, led higher by the information technology and communication services sectors. Ongoing enthusiasm around AI continued to boost related companies amid some strong earnings and outlook statements. Weaker sectors included materials and industrials. The likely timing and extent of interest rates cuts remained a key focus for markets in the quarter. There were worries at the start of the quarter that the US economy may be overheating, and strong economic data was greeted negatively by the market. However, hopes of a soft landing for the economy grew as the quarter progressed. The latest “dot plot”, showing the rate setting forecasts of Fed policymakers, indicated just one rate cut this year.

**European shares advanced less in Q2**. Equities gave back gains towards the end of the quarter amid **uncertainty caused by the announcement of parliamentary elections in France** and **dwindling expectations for steep interest rate cuts**. The European Central Bank cut interest rates by 25 basis points in early June. However, the scope for further cuts may be limited by sticky inflation. Annual inflation in the euro area was 2.6% in May, up from 2.4% in April. Forward-looking data pointed to a slowdown in the eurozone’s economic recovery. The flash HCOB composite purchasing managers’ index dipped to 50.8 in June from 52.2 in May. Politics was a key focus in the quarter. European parliamentary elections saw gains for right-wing nationalist parties. This was notably the case in France and President Macron responded by calling parliamentary elections, in a move that surprised markets and saw French equities underperform the broader European market.

During the period under review, the **MSCI World** advanced 3.5%, the **S&P 500** +5.1%, the **MSCI Europe** +1.7% and the **Swiss SPI** +4.2% (all in EUR). Small and mid-caps in Europe continued to underperform larger companies (MSCI Europe ex UK SMID Cap +0.8%).

From a **sector view**, within European small & mid-caps, the picture during the quarter under review was heterogenous: financials, information technology, energy, utilities, healthcare and communication services advanced, while consumer discretionary, consumer staples and materials declined.

#### Performance Review

Total returns in € (%)	Q2 2024	YTD	3 years p.a.	Since inception p.a. <sup>1</sup>
Schroder European Small & Mid Cap Value Fund (ex UK)	0.9%	3.3	-2.0	9.8
MSCI Europe ex UK SMID Cap Net	0.8%	5.5	0.5	8.3

Source: Schroders, Bloomberg, 30 June 2024; all fund performance data on a NAV to NAV basis, net income reinvested, net of fees.

<sup>1</sup>Fund inception date: 1 November 2003.

In the **second quarter** of 2024, the portfolio advanced by +0.9%, practically in line with the benchmark (+0.8% MSCI Europe ex UK SMID Cap Net). **Since the start of the year**, performance of the portfolio stands at +3.3%, lagging the benchmark’s advance of 5.5%.

On a single stock view, **Galderma** continued to be a strong contributor to relative performance since we participated in the IPO in Q1, as investors come to appreciate the quality of the business model. **FlatexDeGiro** was

another significant **positive contributor**. The leading pan-European online brokerage firm reported good first quarter results ahead of expectations on interest income and current trading activity is improving. **Van Lanschot Kempen**, a leading wealth manager in the Netherlands and Belgium contributed positively, as the company announced to do more and faster return of capital to shareholders. **Rosenbauer** was another positive contributor as a consortium (under leadership of owners of Red Bull, Pierer Mobility) has fully subscribed to the previously announced capital increase at the fixed price of EUR 35 per share. This significantly improves the quality of the balance sheet and the consortium adds industrial and operational efficiency know-how.

**Neste** was a main **negative detractor** as the renewable diesel margins are currently under pressure due to an influx of cheap Chinese imports and muted demand. An inflection point is near as for 2025 the European Sustainable Aviation Fuel mandate starts and emission reduction targets in California rise. **Sixt** is currently being impacted by write-downs on residual values of used cars. The company is implementing fleet adjustments and continuing with its successful US expansion and we continue to see a very attractive long-term investment case.

**Bakkafrost** was another detractor, as above average biology risk due to warm weather and a muted supply outlook had a negative impact on the sector. In the mid-term supply growth for the whole Salmon industry remains very limited and lags expected demand significantly, with Bakkafrost being a main beneficiary due to their higher growth potential due to self-help (Scotland) and large smolt investments.

## Fund Activity and Positioning

During the quarter under review, we added **two new positions** and **sold two** positions. We added Gaztransport & Technigaz and Syensqo and we sold our remaining positions in Bekaert and Verbund.

We bought a position in **Gaztransport & Technigaz**. GTT is a leading engineering company in the liquefied natural gas (LNG) sector, specialising in the design of membrane containment systems for maritime transportation and storage. Their technological leadership allows very high margins and high returns on capital (ROIC>50%), while the high growth in LNG investments gives strong visibility. Valuation is attractive at 13.5x earnings for 2025 on high visibility. Additionally, we bought a position in **Syensqo**, a chemicals producer with leading positions in specialty polymers and composite materials. Previously to its spin-off (December 2023) it was part of the Solvay group. Due to its strong end-market positions it has high margins and is well placed to benefit from electrification, lightweighting, advanced connectivity and resource efficiency trends. Valuation is attractive at 10x EV/EBIT ('24), at a 30% discount to comparable peers.

We sold our position in **Bekaert** after the company has successfully improved the cost base and balance sheet. Going forward, we see more limited upside to further transform the company, especially as some of its end-markets are facing headwinds (construction, automotive) or slower than expected growth (hydrogen). As well, we sold **Verbund** as risk/reward has become unfavorable on current levels.

As usual, we **decreased** holdings which had outperformed significantly or which needed to be resized like Accelleron, ASR, CTS Eventim, Euronext, Logitech, Galderma and GVS. We opportunistically **increased** our existing positions as we took advantage of outsized moves on a stock level in companies like Andritz, AMS Osram, Dürr, Gerresheimer, Mayr-Melnhof Karton, Soitec, Stratec and Svenska Handelsbanken.

### Key Stock Positions\*

Top 10 holdings	Sector	Country	Absolute weight (%)
ASR	Financials		2.3
ASM Intl.	Information Technology		2.2
Euronext	Financials		2.1
Bank of Ireland	Financials		2.1
Andritz	Industrials		2.1
Rheinmetall	Industrials		2.1
Accelleron	Industrials		2.0
CTS Eventim	Communication Services		1.9
Galderma	Health Care		1.8
Dieteren Group	Consumer Discretionary		1.8

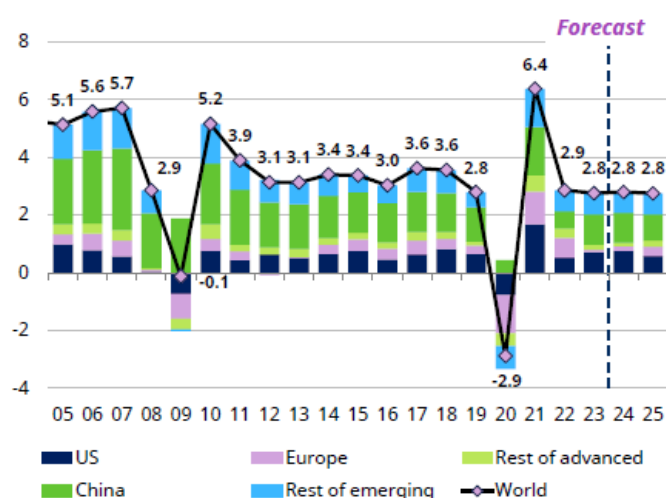
Source: Schroders, 30 June 2024

\* Data can differ from our factsheets due to different sources.

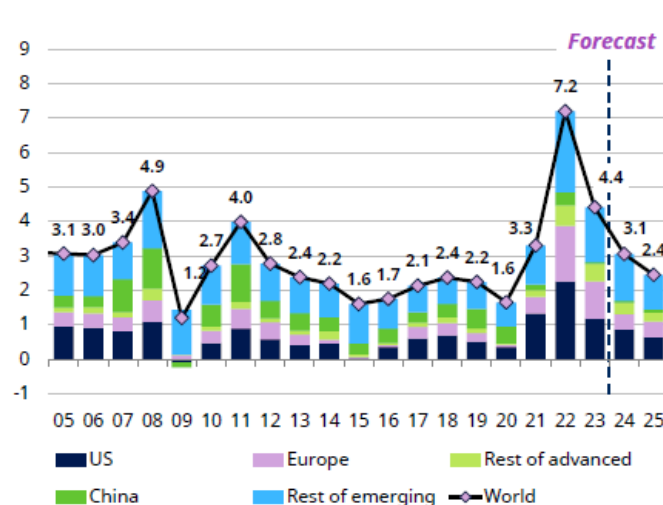
## Investment View

We have revised our global GDP growth forecasts to 2.8% for both this year and next, up from our previous projection for growth of 2.6% this year and 2.7% in 2025. That leaves us above consensus and means that we expect most major economies to beat expectations over the next eighteen months. Decent growth should also support a continued recovery in the global manufacturing cycle. However, inflation is also set to be a bit higher at 3.1% this year, due in large part to upside surprises from incoming data in the developed markets, before subsiding to a below consensus 2.4% in 2025.

Contributions to World GDP growth (y/y)



Contributions to World inflation (y/y)



Source: Schroders Economics Group, 28 May 2024

In the US, against a backdrop of robust demand, inflation has been stickier than assumed. While steady disinflation is likely – we expect the CPI rate to fall from 3.1% this year to 2.2% next year – we see less room for interest rate cuts. We now expect the Federal Reserve (Fed) to deliver a total of only 75 basis points (bps) of rate cuts until the end of 2025.

The eurozone economy emerged from its shallow recession in Q1 and we now expect GDP to grow by 0.9% this year (0.7% previously) and 1.8% in 2025 – comfortably above consensus. Inflation is also expected to be higher this year at 2.3% versus 2.1% previously as incoming data have been hotter than we had assumed. As a result, we expect the European Central Bank (ECB) to get on with interest rate cuts, delivering 150 bps of easing starting in June until the end of 2025.

In Switzerland the Federal Export Group on business Cycles adjusted GDP growth estimates slightly up to 1.2% in 2024 (previous forecast 1.1%) and left its forecast for 2025 unchanged at 1.7%. In May 2024, inflation in Switzerland reached a level of 1.4% y/y. This favorable inflation rate allowed the Swiss National Bank (SNB) to make the decision to lower interest rates by another 0.25% in June to 1.25%. The SNB's proactive approach demonstrates their commitment to supporting the Swiss economy and ensuring its stability.

The overall environment for equities has improved in the course of the last few quarters in expectation of a more positive GDP growth environment. Many companies we spoke to during the quarter expressed

optimism regarding the demand outlook for the second half of 2024. However, as visibility on the timing of the recovery is still limited for most companies, this could lead to short-term volatility.

Nevertheless, we expect that the path of interest rates could continue to be a more important factor for equity markets than the positive economic environment. The overall market sentiment seems susceptible to directional swings with significant reactions to singular data points on inflation, PMIs and jobs. These swings mean that factors continue to be a larger driver of markets than specific company fundamentals.

In terms of our investment strategy, we remain focused on the long-term prospects of our holdings and stick to our balanced positioning with a clear focus on high-quality firms with healthy balance sheets. As started over the course of the last few quarters, we continue to add to stocks that have experienced temporary setbacks due to minor negative news, whereas the long-term fundamental prospects remain fully intact. We find such stocks in various sectors including the more cyclical segments.

## Portfolio characteristics – Schroder European Small & Mid Cap Value Fund (ex UK)

<b>Fund managers</b>	Philipp Bruderer and Daniel Lenz	<b>Number of stocks in fund</b>	81
<b>Managed fund since</b>	1 November 2015	<b>Bloomberg</b>	SRIFSME SW
<b>Fund launch date</b>	1 November 2003	<b>ISIN</b>	CH0016875426
<b>Fund benchmark</b>	MSCI Europe ex UK SMID Cap Net*	<b>Swiss security number</b>	1687542
<b>Fund size</b>	EUR 72.8 mn	<b>Fund base currency</b>	EUR
<b>Ongoing charge<sup>1</sup></b>	0.70%		

Source: Schroders, 31 March 2024.

<sup>1</sup>The ongoing charge figure is based on expenses as per audited annual account 31.12.2020 and may vary from year to year.

\*Benchmark: since inception until 31.12.2015: DJ Stoxx 200 Mid Cap TR; since 01.01.2016: MSCI Europe ex UK SMID Cap Net.

### Important Information

This document constitutes marketing material. It is for information purposes only.

None of the information in this document constitutes a solicitation, an offer or a recommendation to buy or sell any Schroder funds or other financial instruments, to effect any transactions, or to conclude any legal act of any kind whatsoever. The information does not take into account any personal circumstances and does not qualify as general or personal investment recommendation or advice.

The information contained herein has been taken from sources, which we deem reliable. We do not represent that such information is accurate or complete and it should not be relied upon as such. Any opinions expressed herein reflect our current judgement and may be subject to change.

Investments or other decisions should be made solely on the basis of the relevant fund or product documents. It is important that you read such documents before you make any investment to ensure that you understand the specific risks involved and other important matters. We recommend that you contact an independent financial advisor, tax consultant or other qualified expert in order to determine whether an investment in a particular financial instrument corresponds to your specific requirements and preferred level of risk. We do not provide investment, legal, tax or other advice through this document and nothing herein should be construed as such advice.

The Schroder European Small & Mid Cap Value Fund (ex UK) (the «Fund») is a contractual investment fund of the type «other funds for traditional investments» according to the Federal Act on Collective Investment Schemes. The Fund is only available for qualified investors as defined in the fund contract with annex. Schroder Investment Management (Switzerland) AG, Zurich, is the fund management company («Fund Management Company») and Credit Suisse (Schweiz) AG, Zurich, is the depositary bank of the Fund. The fund contract with annex, the key investor information document as well as the annual and semi-annual reports («Fund Documents») may be obtained free of charge from the Fund Management Company.

Statements regarding the past performance may not be understood as indication for the current or future performance. The value of investments and the income therefrom may fluctuate. A good past performance may possibly not be repeated in the future. It is possible that the investors will not be paid back the full amount invested. Performance data does not take into account any commissions and costs incurred by investors when subscribing or redeeming units of the Fund.

Third party data is owned or licensed by the data provider and may not be reproduced or extracted and used for any other purpose without the data provider's consent. Third party data is provided without any warranties of any kind. The data provider and issuer of the document shall have no liability in connection with the third party data. The Prospectus and/or [www.schroders.ch](http://www.schroders.ch) contains additional disclaimers which apply to the third party data.

All statements, opinions and views contained in this document relating to future events or the possible future performance of the Fund merely represent the Fund Management Company's own assessment and interpretation of information that was available to it at the relevant time and are subject to change at any time without notice. No representation is made or assurance is given that such statements, opinions and views are correct, or that the underlying information is accurate.

This document may not be reproduced, copied, distributed or otherwise transmitted either in whole or in part to any third party without the explicit written consent of Schroder Investment Management (Switzerland) AG.

This document has been issued by Schroder Investment Management (Switzerland) AG, Central 2, CH-8001 Zurich, Switzerland a fund management company authorised and supervised by the Swiss Financial Market Supervisory Authority FINMA, Laupenstrasse 27, CH-3003 Bern.