Schroders

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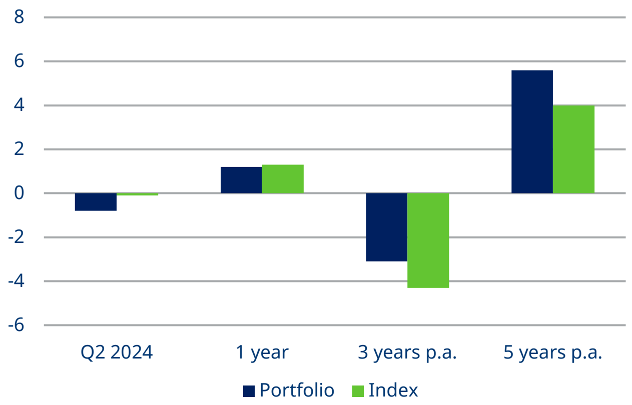
Schroder (CH) Swiss Small & Mid Cap Fund
Quarterly Fund Update
Second quarter 2024

Returns to 30 June 2024 (%)

I accumulation shares CHF returns



Source: Schroders, Bloomberg, as of 30 June 2024.

	Q2 2024	YTD 2024	3 years p.a.	5 years p.a.
Schroder (CH) Swiss Small & Mid Cap Fund I Acc	-0.8	5.2	-3.1	5.6
Swiss Performance Index Extra SPIEX	-0.1	4.5	-4.3	4.0

Source: Schroders, Bloomberg, as at 30 June 2023.

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. Performance data does not take into account any commissions and costs, if any, charged when units or shares of the fund are issued and redeemed.

Summary

The Schroder (CH) Swiss Small & Mid Cap Fund was down -0.8% compared to -0.1% of the benchmark in the second quarter of 2024. Since the beginning of the year, the fund is up +5.2%, outperforming the benchmark by +0.7%. Over three years, the annualized performance stands at -3.1%, outperforming the index by +1.2% per annum and over five years, the fund returned +5.6% per annum which equals an annualized outperformance of +1.6%.

Global stock markets advanced in Q2, but less pronounced to the very strong first quarter. Measured in CHF, the MSCI World advanced 2.4%, the S&P 500 4.0% and the MSCI Europe 0.6%. In Switzerland small & mid caps (SPI Extra) returned -0.1%, lagging the large caps segment (SMI TR +4.0%).

During the second quarter of 2024, we increased our holdings in ams-Osram, Cembra, Georg Fischer, Helvetia, Meier Tobler, Oerlikon, Straumann and Temenos. On the other hand, we took profits in Baloise and Burckhardt Compression. In addition, we sold TX Group and Valiant.

Portfolio characteristics

Fund manager	Daniel Lenz / Philipp Bruderer
Managed fund since	30 June 2017
Fund launch date	30 June 2017
Fund benchmark	SPI Extra Total Return
Fund size	CHF 191.9 mn
Annual management fee	n/a
Ongoing charge (latest available)	0.03 % p.a.
Number of stocks in fund	46
Fund base currency	CHF
ISIN	CH0368676380
Bloomberg Ticker	SCHSMCI SW
Swiss security number	36867638

Source: Schroders, as at 30 June 2024.

Market Review

Global stock markets advanced in Q2, but less pronounced 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.

In Switzerland, the State Secretariat of Economic Affairs (SECO) 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 favourable 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.

Measured in CHF, the MSCI World advanced 2.4%, the S&P 500 4.0% and the MSCI Europe 0.6%. In Switzerland small & mid caps (SPI Extra) returned -0.1%, lagging the large caps segment (SMI TR +4.0%).

Within Swiss small & mid caps, utilities (+6.0%), financials (+4.6%) and technology stocks (+4.5%) performed best. On the other hand, cyclical consumer goods (-8.4%), basic materials (-2.9%), non-cyclical consumer goods (-1.8%), healthcare (-1.3%) and industrials (-0.6%) suffered negative returns. The sector performance explains the below average performance of Swiss small & mid caps in the second quarter under review as the heavy weight segments industrials, healthcare and non-cyclical consumer goods all suffered negative returns.

Performance review

The Schroder (CH) Swiss Small & Mid Cap Fund was down -0.8% compared to -0.1% of the benchmark in the second quarter of 2024. Since the beginning of the year, the fund is up +5.2%, outperforming the benchmark by +0.7%. Over three years, the annualized performance stands at -3.1%, outperforming the index by +1.2% per annum and over five years, the fund returned +5.6% per annum which equals an annualized outperformance of +1.6%.

In the quarter under review, the main detractors to relative performance came from our stock selection in the industrial and healthcare sector. In industrials, we suffered from our underweight in the semiconductor equipment supplier VAT Group. In addition, overweights in Daetwyler, Zehnder and Forbo contributed negatively. In healthcare, our underweights in Sandoz and Roche as well as our position in Tecan detracted from relative performance.

Clearly positive was our positioning in the technology sector with positions in Comet and Also Holding. Comet benefits from the expected upturn in the semiconductor cycle and Also Holding is well positioned to participate from the investments in the area of artificial intelligence. In addition, positions in Baloise, Galderma, VZ Holding, Cembra and Accelleron as well as underweights in Straumann, Adecco and DocMorris were positive to relative performance.

Please note that 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.

Risk considerations

The capital is not guaranteed.

The fund will not hedge its market risk in a down cycle. The value of the fund will move similarly to the market.

Portfolio positioning as at 30 Juni 2024 *

Sector	Relative weights
Technology	4.3%
Financials	2.0%
Utilities	1.6%
Industrials	1.2%
Cash	0.7%
Cons. Staples	0.4%
Communication	-0.3%
Cons. Disc	-1.1%
Healthcare	-1.9%
Basic Materials	-2.0%
Real Estate	-4.9%

Top 10 overweights	Relative weight (%)
Comet	3.4
VZ Holding	2.9
SFS	2.3
Tecan	2.2
Helvetia	2.1
Forbo	2.1
Accelleron	2.0
Daetwyler	2.0
BKW	1.8
St.Galler KB	1.7

Top 10 underweights	Relative weight (%)
VAT	-4.4
Lindt & Sprüngli	-2.9
Sandoz	-2.7
Roche	-2.6
SGS	-2.5
Swiss Prime Site	-2.1
PSP Swiss Property	-1.7
Adecco	-1.6
Ems-Chemie	-1.6
Siegfried	-1.3

Source: Schroders, as at 30 June 2024

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

Key portfolio activity and positioning

We streamlined the portfolio during the second quarter of 2024 and completely sold off two positions: Valiant and TX Group. With Valiant, we view certain decisions as not shareholder friendly. Specifically, we have concerns regarding what we perceive as disproportionate contributions to general banking risks, which negatively impact the dividend potential. TX Group was a very small and illiquid position in the portfolio. As the stock has experienced significant price increases since the beginning of the year, we took advantage of these gains to divest the position.

We also reduced our holdings in Baloise and Burckhardt Compression. The stock price of Baloise increased significantly following the general assembly due to the lifting of the previously existing voting rights restriction. We seized the opportunity to take profits and reduce our position. We also realized gains in Burckhardt Compression after adding to our holdings at significantly lower prices in the fourth quarter 2023.

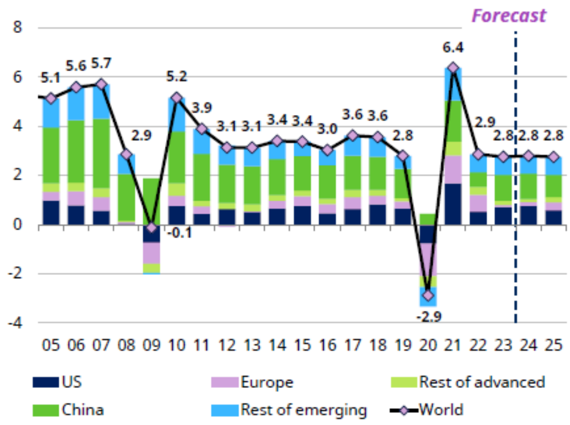
The proceeds from the sales, along with dividends received during the reporting quarter, were reinvested in various areas. We increased our holdings in cyclical stocks such as Georg Fischer, Oerlikon, ams-Osram and Meier Tobler. Additionally, we expanded our positions in Straumann and Temenos. In addition, we reinvested the high dividend payouts from Helvetia and Cembra Money Bank.

As of 30 June 2024, the fund consists of 46 holdings. Biggest overweight positions are Comet, VZ Holding, SFS, Tecan and Helvetia. On a sector level, we are overweight in technology, financials, utilities, industrials and consumer staples. The biggest underweight sectors are real estate, materials and healthcare. Cash was at 0.7%.

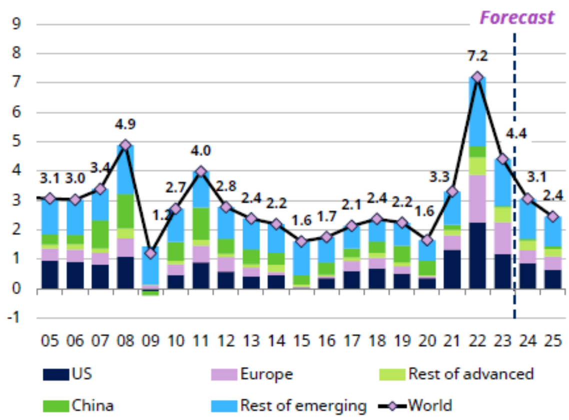
Outlook

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 favourable 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 over the course of the last few quarters in expectation of a more positive GDP growth environment. Swiss equities, in particular, which generate on average between 80-90% of their revenue abroad, benefit from the more positive growth environment. Many Swiss companies 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 many 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 in 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.

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