Schroders

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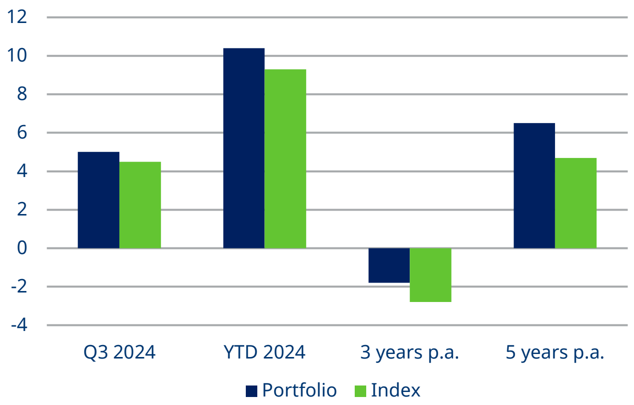
Schroder (CH) Swiss Small & Mid Cap Fund

Quarterly Fund Update

Third quarter 2024

Returns to 30 September 2024 (%)

I accumulation shares CHF returns



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

	Q3 2024	YTD 2024	3 years p.a.	5 years p.a.
Schroder (CH) Swiss Small & Mid Cap Fund I Acc	5.0	10.4	-1.8	6.5
Swiss Performance Index Extra SPIEX	4.5	9.3	-2.8	4.7

Source: Schroders, Bloomberg, as at 30 September 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

In the third quarter of 2024, the Schroder (CH) Swiss Small & Mid Cap Fund was up +5.0% compared to +4.5% of the benchmark. Since the beginning of the year, the fund is up +10.4%, outperforming the benchmark by +1.1%. Over three years, the annualized performance stands at -1.8%, outperforming the index by +1.0% per annum and over five years, the fund returned +6.5% per annum which equals an annualized outperformance of +1.8%.

Measured in Swiss francs, global stock markets ended the third quarter little changed. The MSCI World and the MSCI Europe advanced 0.1%, the S&P 500 lost -0.5% (all measured in CHF). Swiss equities performed better. Swiss small & mid caps (SPI Extra) returned +4.5%, large caps +1.6% (SMI TR).

During the third quarter of 2024, we bought new positions in Inficon, R&S Group and CPH Group. We increased our holdings in ams-Osram, Also and Meier Tobler. On the other hand, we took profits in Accelleron, Baloise, Galderma and VZ Holding. In addition, we sold SoftwareOne and Airesis.

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 204.9 mn
Annual management fee	n/a
Ongoing charge (latest available)	0.04 % p.a.
Number of stocks in fund	47
Fund base currency	CHF
ISIN	CH0368676380
Bloomberg Ticker	SCHSMCI SW
Swiss security number	36867638

Source: Schroders, as at 30 September 2024.

Market Review

Global stock markets advanced in Q3 in local currencies however stayed almost unchanged measured in Swiss francs. The quarter was characterised by two short, but sharp market corrections, both followed by a market recovery. The focus was on US macro data including the development of inflation and the impact on the FED interest rate policy. The 50pbs rate cut announced by the FED in September was well received by the stock market as it was seen as a sign that neither an overheating nor a pronounced weakening of the US economy is expected as the most likely scenario. Geopolitical risks did not materially influence global equity market during the third quarter 2024. This, however, has changed with the further escalation in the Far East at the end of September.

In Switzerland, the State Secretary of Economic Affairs (SECO) left its estimates for GDP growth unchanged at 1.2% in 2024 and slightly reduced its forecast for 2025 to 1.6% (June forecast was 1.7%). Inflation forecasts have been further reduced to 1.2% for 2024 (previous forecast 1.4%) and 0.7% in 2025 (previous forecast 1.1%). This favorable inflation rate allowed the Swiss National Bank (SNB) to make the decision to lower interest rates by another 0.25% in September to 1.0%. The SNB's proactive approach demonstrates their commitment to supporting the Swiss economy and ensuring its stability.

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Within Swiss small & mid caps, healthcare (+7.9%), real estate (+7.6%) and industrials (+6.1%) performed best. On the other hand, telecommunication (-8.9%), technology (-6.3%) and cyclical consumer goods (-0.8%) suffered negative returns.

Performance review

In the third quarter of 2024 the Schroder (CH) Swiss Small & Mid Cap Fund was up +5.0% compared to +4.5% of the benchmark. Since the beginning of the year, the fund is up +10.4%, outperforming the benchmark by +1.1%. Over three years, the annualized performance stands at -1.8%, outperforming the index by +1.0% per annum and over five years, the fund returned +6.5% per annum which equals an annualized outperformance of +1.8%.

In the quarter under review, relative performance benefitted from a positive stock selection effect. In the financial sector, positions in VZ Holding and Helvetia were positive. Within industrials, we benefitted from positions in R&S Group, SFS, Belimo and Schindler as well from our underweights in VAT Group and Adecco which we do not own for the fund.

On the other hand, the main detractors were positions in Forbo, Comet, Tecan, Orior, Bachem and St. Galler Kantonalbank as well as underweights in SGS, Siegfried, Straumann and Swiss Prime Site.

Since the beginning of the year, outperformance stands at +1.1%. Stock selection was positive. Core holdings in Accelleron, VZ Holding, Galderma, Comet, Helvetia, Baloise and SFS Group as well as our zero position in Adecco were the biggest positive contributors.

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 September 2024 *

Sector	Relative weights
Technology	4.2%
Cash	2.1%
Financials	1.9%
Industrials	1.8%
Utilities	1.6%
Cons. Staples	0.3%
Communication	-0.2%
Cons. Disc	-1.1%
Basic Materials	-1.6%
Healthcare	-3.9%
Real Estate	-5.1%

Top 10 overweights	Relative weight (%)
Comet	2.9
VZ Holding	2.9
Helvetia	2.4
SFS	2.3
Accelleron	2.0
Tecan	1.9
Daetwyler	1.9
BKW	1.8
Forbo	1.7
Zehnder	1.6

Top 10 underweights	Relative weight (%)
VAT	-3.6
Sandoz	-2.8
SGS	-2.8
Lindt & Sprüngli	-2.8
Roche	-2.6
Swiss Prime Site	-2.3
PSP Swiss Property	-1.8
Siegfried	-1.5
Adecco	-1.5
Ems-Chemie	-1.5

Source: Schroders, as at 30 September 2024

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

Key portfolio activity and positioning

In the third quarter, we added R&S Group, Inficon and CPH Group to our portfolio.

R&S is a leading provider of transformers in their core markets Switzerland, Germany, Poland, and Italy. In mid-August, a significant strategic step was announced with the acquisition of Kyte Powertech in Ireland. Kyte is a leading player in the transformer market in England and Ireland, making it highly complementary to R&S. Both companies' sales markets are growing, driven by the trends towards electrification and the necessary investments in the renewal of the outdated power distribution infrastructure.

Inficon, on the other hand, is the world leader in high-precision gas analysis and measurement instruments and serves as a technology supplier. Half of their revenues come from the semiconductor industry, while the other half is well diversified across various industrial sectors. Inficon achieves above-average long-term growth, operates with a 20% profit margin, and is debt-free.

CPH Group has focused on two business areas, chemicals and medical packaging, following the spin-off of its paper business and real estate assets. In both remaining business fields, CPH is among the top three providers globally in niche markets. Both units offer growth opportunities and achieve double-digit operating margins. Additionally, the company has a very solid balance sheet.

On the selling side, we divested SoftwareOne. The company had to lower its revenue expectations for the current year, and the strategic outlook remains uncertain. Possible options include going private, being taken over, or a merger with a competitor. However, it is also possible for the company to continue in its current form as an independent publicly traded company. After our discussions with decision-makers, it became unclear whether the interests of minority shareholders would be safeguarded, leading us to separate from our position. We also divested a very small residual in the holding company Airesis.

Furthermore, we increased our holdings in ams-Osram, Also and Meier Tobler. We realized gains by reducing our positions in Accelleron, Baloise, Galderma and VZ Holding.

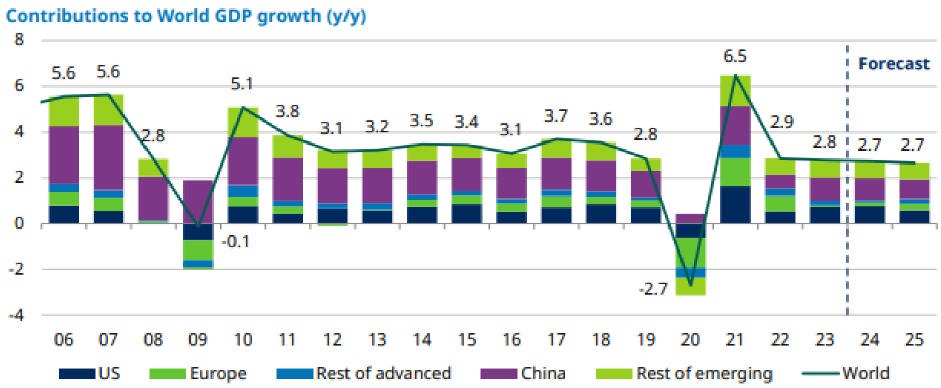
As of 30 September 2024, the fund consists of 47 holdings. Biggest overweight positions are VZ Holding, Comet, Helvetia, SFS and Accelleron. On a sector level, we are overweight in technology, financials, consumer staples, utilities and industrials. The biggest underweight sectors are real estate, healthcare and materials. Cash was at 2.1%.

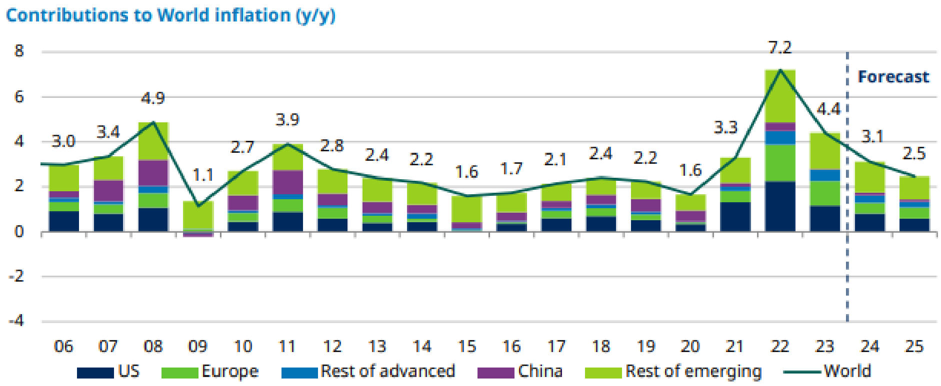
Outlook

We have slightly revised our global GDP growth forecasts to 2.7% for 2024, down from our previous projection of 2.8%. For 2025, we continue to see a growth rate of 2.7%. From our perspective, concerns about an imminent US recession are overblown. Rising unemployment has not been driven by layoffs, but rather elevated inward net migration outpacing the normalisation in job creation. More broadly, labour market conditions have moved into better balance, which ought to see hiring and wage growth revert to a more typical pace. Taken alongside further disinflation and improving credit availability, this should serve to sustain solid household consumption and, by extension, economic activity more generally. The eurozone economy is being held back by the manufacturing malaise. Factory output continues to lag far behind consumer-facing sectors despite the upturn in the global goods cycle. With manufacturers faring better elsewhere, this might point to a structural loss of competitiveness, leading us to scale back our eurozone growth forecast for next year. China now looks set to fall short of its 5% growth target this year. Soft domestic demand has outweighed a solid export performance, with the housing crisis remaining a significant drag on confidence and investment. The recently announced program to support the domestic economy including the real estate sector was well received by market participants.

Central banks are unlikely to deliver the easing priced into markets. Policymakers are set to cut rates cautiously to avoid a second wave of inflation. After the first 0.5% cut in September, our forecast sees the Federal Reserve (Fed) lowering rates at a quarterly pace. And tweaks to our rate profiles for the European Central Bank (ECB) and Bank of England (BoE) mean both deliver one fewer rate cut by end-2025 than we previously expected.

In Switzerland the State Secretary of Economic Affairs (SECO) left its estimates for GDP growth unchanged at 1.2% in 2024 and slightly reduced its forecast for 2025 to 1.6% (June forecast as 1.7%). Inflation forecasts have been further reduced to 1.2% for 2024 (previous forecast 1.4%) and 0.7% in 2025 (previous forecast 1.1%). This favorable inflation rate allowed the Swiss National Bank (SNB) to make the decision to lower interest rates by another 0.25% in September to 1.0%. The SNB's proactive approach demonstrates their commitment to supporting the Swiss economy and ensuring its stability.





Source: Schroders Economics Group, 27 August 2024.

The overall environment for equities overall stays positive supported by a low but pretty stable GDP growth environment and declining interest rates. Swiss equities, in particular, which generate on average between 80-90% of their revenue abroad, benefit from the positive growth environment. Short term however, we expect ongoing market volatility as one cannot exclude that certain companies may disappoint with their H2 2024 earnings as shorter-term visibility on the economic development of the major economic regions North America, Eurozone and China is still limited and market expectations might be too optimistic.

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 during 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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