Schroders

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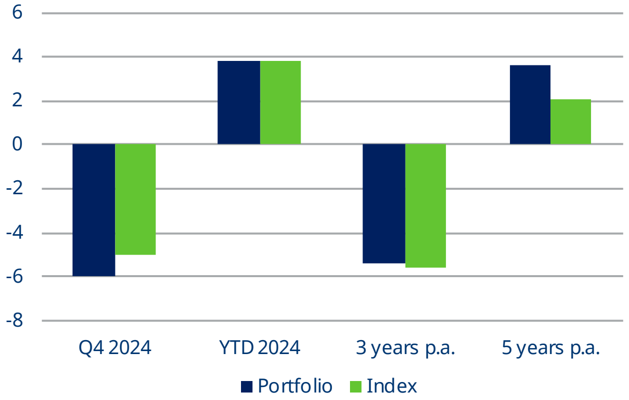
Schroder (CH) Swiss Small & Mid Cap Fund
Quarterly Fund Update
Fourth quarter 2024

Returns to 31 December 2024 (%)

I accumulation shares CHF returns



Source: Schroders, Bloomberg, as of 31 December 2024.

	Q4 2024	YTD 2024	3 years p.a.	5 years p.a.
Schroder (CH) Swiss Small & Mid Cap Fund I Acc	-6.0	+3.8	-5.4	3.6
Swiss Performance Index Extra SPIEX	-5.0	+3.8	-5.6	2.1

Source: Schroders, Bloomberg, as at 31 December 2024.

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 fourth quarter of 2024, the Schroder (CH) Swiss Small & Mid Cap Fund was down -6.0% compared to -5.0% of the benchmark. Since the beginning of the year, the fund is up +3.8%, inline with the benchmark. Over three years, the annualized performance stands at -5.4%, outperforming the index by +0.2% per annum and over five years, the fund returned +3.6% per annum which equals an annualized outperformance of +1.5%.

The stock markets showed significant regional differences in performance. The MSCI World and the S&P 500 increased in the fourth quarter of 2024 by +7.4% and +10.1%, respectively, when measured in CHF. The strength of the US dollar had a distinctly positive effect. In Europe, the performance was negative; the MSCI Europe lost -2.9% in CHF during the fourth quarter of 2024. In Switzerland, the index for large-cap companies (SMI TR Index) stood at -4.7%, while Swiss small and mid-cap stocks (SPIEX Index) performed worse, with -5.0%.

During the fourth quarter of 2024, we increased our holdings in Aryzta, Bachem, Barry Callebaut, Bucher, CPH Chemie, Inficon, R&S Group and Tecan. On the other hand, we took profits in Accelleron, Baloise and VZ Holding.

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 192.7 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 31 December 2024.

Market Review

Equities in the US advanced in the fourth quarter following Donald's Trump's victory in the Presidential election, but other regional markets came under pressure amid worries over trade tariffs. In Europe, political instability was a feature of the period in both Germany and France.

In Switzerland the State Secretary of Economic Affairs (SECO) reduced its estimates for GDP growth to 0.9% for 2024 (September forecast was 1.2%) and slightly reduced its forecast for 2025 to 1.5% (September forecast was 1.6%). Inflation forecasts have been further reduced to 1.1% for 2024 (previous forecast 1.2%) and 0.3% in 2025 (previous forecast 0.7%). This low inflation rate allowed the Swiss National Bank (SNB) to make the decision to lower interest rates by another 0.5% in December to 0.5%.

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Within Swiss Small & Mid Caps, only the defensive sectors of financials (+5.2%), real estate (+5.0%), and telecommunications (+1.6%) achieved positive returns. All other sectors were in negative territory. The worst performers were technology (-21.1%), basic materials (-11.4%), and non-cyclical consumer goods (-10.8%). Industrials, which are important for the portfolio, also ended in negative territory at -6.1%.

Performance review

In the fourth quarter of 2024, the Schroder (CH) Swiss Small & Mid Cap Fund was down -6.0% compared to -5.0% of the benchmark. Since the beginning of the year, the fund is up +3.8%, inline with the benchmark. Over three years, the annualized performance stands at -5.4%, outperforming the index by +0.2% per annum and over five years, the fund returned +3.6% per annum which equals an annualized outperformance of +1.5%.

The underperformance of the fund in the fourth quarter is attributable to a negative sector allocation. Our overweight in technology and underweight in real estate each contributed -0.7% to relative performance.

Stock selection was neutral overall. Positive contributors included our positions in VZ Holding, Zug Estate, Accelleron, Galderma, Helvetia and St. Galler KB, as well as underweights in VAT Group, SoftwareOne, Adecco and Clariant.

Negative contributors were our positions in technology and industrial stocks such as Comet, ams-Osram, Daetwyler, Zehnder, Oerlikon, and Also Holding. Additionally, negative effects came from our position in the medical technology company Tecan and underweights in Sandoz, Swiss Prime Site and Swissquote.

Looking at the entire year 2024, similar effects were observed as in the fourth quarter. Sector allocation was negative at -1.5 %, impacted by our overweight in technology (effect on relative performance: -1.7%) and underweight in real estate (effect on relative performance: -0.5%). Stock selection, on the other hand, was positive at +1.5%. The most significant effects at the stock level came from our positions in Accelleron, VZ Holding, Galderma, Helvetia, Baloise, Zug Esatate and SFS, as well as underweights in Adecco and VAT Group. The largest negative effects were from positions in Tecan, Orior, Daetwyler and Forbo, as well as underweights in Sandoz, SGS and Swissquote.

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 31 Dezember 2024 *

Sector	Relative weights
Technology	4.4%
Industrials	2.4%
Financials	1.8%
Utilities	1.7%
Cash	1.0%
Cons. Staples	0.9%
Basic Materials	-1.0%
Cons. Disc	-1.1%
Communication	-1.1%
Healthcare	-3.5%
Real Estate	-5.4%

Top 10 overweights	Relative weight (%)
VZ Holding	2.9
Helvetia	2.6
SFS	2.4
Comet	2.3
Accelleron	2.0
Zug Estates	1.9
BKW	1.9
Tecan	1.8
St.Galler KB	1.7
Aryzta	1.7

Top 10 underweights	Relative weight (%)
Sandoz	-3.2
VAT	-3.0
SGS	-2.7
Lindt & Sprüngli	-2.6
Roche	-2.6
Swiss Prime Site	-2.5
PSP Swiss Property	-1.9
Siegfried	-1.4
Ems-Chemie	-1.3
Flughafen Zürich	-1.3

Source: Schroders, as at 31 December 2024

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

Key portfolio activity and positioning

During the fourth quarter of 2024, we increased our holdings in Aryzta, Bachem, Barry Callebaut, Bucher Industries, CPH Chemie, Inficon, R&S Group and Tecan. On the selling side, we took profits in Accelleron, Baloise and VZ Holding.

In CPH Chemie, R&S Group and Inficon, we bought a new position in the previous quarter. We now increased those names.

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.

R&S is a leading provider of electrical 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' end 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.

We also increased our holdings in Aryzta, Bachem, Barry Callebaut, Bucher Industries and Tecan on stock price weakness.

As a result of the portfolio activity, we increased our weightings in industrials, technology, non-cyclical consumer goods, healthcare and basic materials. Healthcare and basic materials stay underweight compared to the benchmark though. On the other hand, we considerably reduced our overweight in financials. We also reduced our cash level.

As of 31 December 2024, the fund consists of 47 holdings. Biggest overweight positions are VZ Holding, Helvetia, SFS, Comet and Accelleron. Cash was at 1.0%.

Outlook

The global economy is set to continue to deliver growth in the region of 2.5-3% over the next couple of years. However, the relative stability of our global forecast masks some major shifts at the country level, as stronger growth in the US is expected to be offset by weaker growth elsewhere.

We continue to find expectations for the US economy too pessimistic. The consumer is in good shape and, with the labour market cooling rather than collapsing, household spending should continue to drive growth. There is huge uncertainty about the policy outlook once President-elect, Donald Trump, enters office in January. But we believe pro-growth policies, along with relatively mild supply-side measures, will boost growth to around 2.5% in 2025 with a slight acceleration to 2.7% in 2026. Faster growth is likely to ensure that inflation remains higher than we previously assumed and that, after some more near-term easing, the focus of the Federal Reserve (Fed) will eventually turn to rate hikes in 2026.

The eurozone economy is expected to register some improvement in 2025/26, but from a low level. While consumers have benefited from lower inflation, sticky price pressures are likely to limit the room for further interest rate cuts. We think the European Central Bank's (ECB) terminal rate will be 2.5%, higher than market expectations. Meanwhile, there is no end in sight to the drag from the structural decline of European manufacturing.

In Switzerland the State Secretary of Economic Affairs (SECO) reduced its estimates for GDP growth to 0.9% for 2024 (September forecast was 1.2%) and slightly reduced its forecast for 2025 to 1.5% (September forecast was 1.6%). Inflation forecasts have been further reduced to 1.1% for 2024 (previous forecast 1.2%) and 0.3% in 2025 (previous forecast 0.7%). This low inflation rate allowed the Swiss National Bank (SNB) to make the decision to lower interest rates by another 0.5% in December to 0.5%.

The overall environment for equities remains positive supported by a low but stable GDP growth environment and declining interest rates. Although we expect the change in administration in the US to be positive for equity markets, there is a substantial risk that Trump's policies could be far more aggressive than anticipated, potentially mired in stagflation for the US economy and pushing the rest of the word towards recession. Such developments could exacerbate macroeconomic divergences even further.

Regarding Swiss equities, two concerns arise:

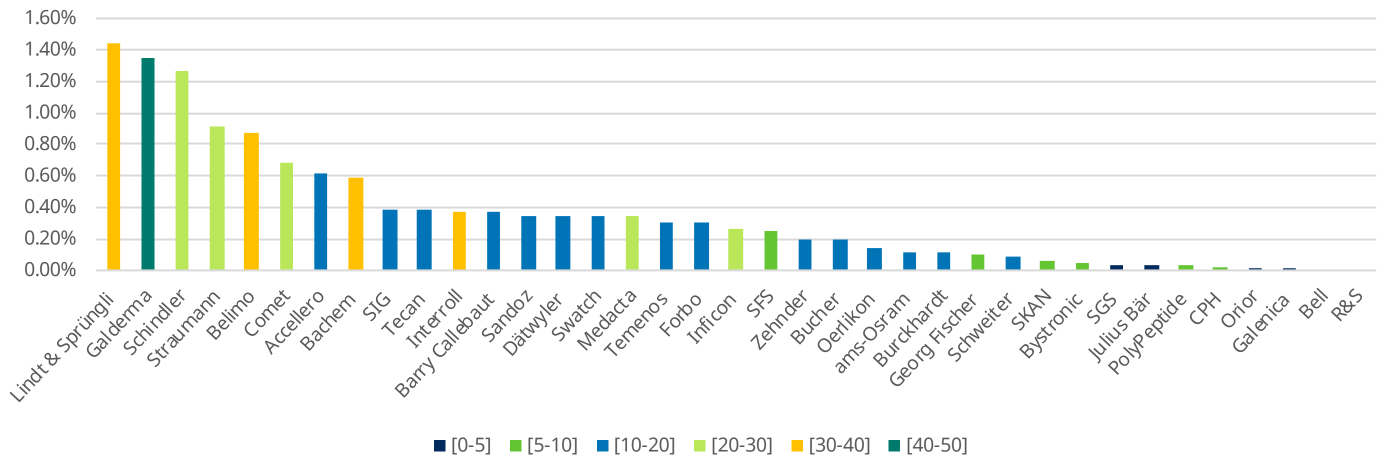
1. The potential impact of trade duties on exports to the US
2. The development of the Swiss franc.

1. US Trade Duties: Only 4% of Portfolio Revenues in Scope

The companies in our Swiss small and mid-cap portfolio derive approximately 13% of their revenue from the US, making it the second most important country after Switzerland, which accounts for about 24%. The composition of the portfolio's revenue exposure is illustrated in the following chart. The percentage represents the US revenue contribution to the overall portfolio, while the colors indicate each company's revenue share in the US.

As an example, Lindt & Sprüngli, as one of the larger companies in our portfolio with a relatively high percentage of their total revenue from the US accounts for one tenth, i.e. 1.4% to the 13% of the portfolio total. The orange colour indicates that between 30 an 40% of their revenue comes from the US. Galderma has a higher share of revenue from the US (40-50%), but as its weight in the portfolio is smaller, its overall contribution accounts for 1.2%.

US Exposure Breakdown by Security



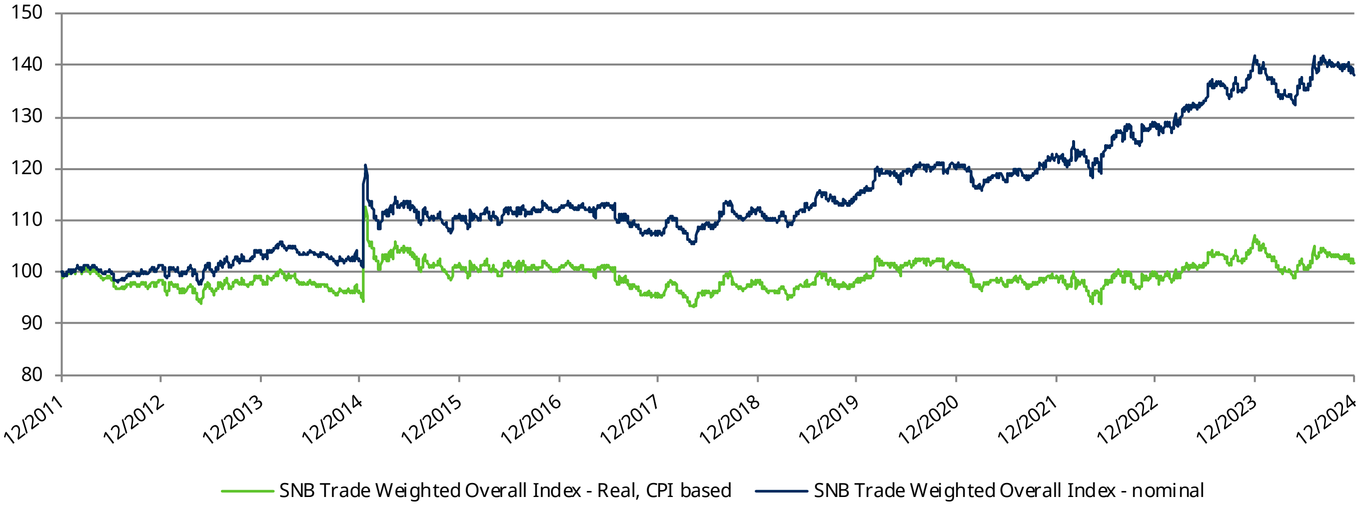
Source: Schroders, Holdings as at 11 December 2024.

Although a 13% revenue share from the US may seem relatively high, much of this revenue is generated locally within the US rather than being imported. When adjusting for this, **the effective revenue share potentially impacted by US trade duties is reduced to approximately 4% of the portfolio.**

2. Swiss Franc: Stable Development in Real Terms

In nominal terms, the Swiss franc has consistently appreciated against other currencies. However, its development in real terms has remained stable over time.* **According to the Swiss National Bank (SNB), the trade-weighted Swiss franc index in real terms has been stable since 2012.** This stability implies that the significant nominal appreciation of approximately 40% over this period is largely attributable to differences in inflation levels. Consequently, Swiss exporters are not disproportionately disadvantaged, as lower inflation in Switzerland offsets the effects of nominal appreciation, resulting in a neutral impact on export-oriented companies.

Trade weighted currency index – real, CPI-based vs. nominal



Source: Swiss National Bank, December 2011=100, 31 December 2024.

In summary, the outlook for Swiss equities remains positive and neither potential US trade duties nor further nominal appreciation of the Swiss franc is expected to significantly impact the long-term attractiveness of our investment universe. The resilience of Swiss companies, supported by stable real currency development and a limited exposure to import-dependent revenues, underscores their strong position in navigating external challenges.

** the nominal exchange rate looks just at the amount of foreign currency that the Swiss franc can buy: e.g. in 2007, one CHF bought 0.6 EUR, today one gets 1.07 EUR. However, inflation that has been faster in the Eurozone has eroded what one EUR bought – and the real exchange rate adjusts for that. Assume that in 2007 a small bottle of branded mineral water sold in a retail shop for 0.60 EUR in 2007. Now its price is 1.07. This devaluation is taken out of the real exchange rate to express what a basket of goods purchased abroad costs you in Swiss francs. The mineral water example is simplified, as it neglects the inflation that occurred in Switzerland: normally a bottle of water would also rise in price in Switzerland over time. However, inflation has been so low in Switzerland since 2007 that the example is not far from reality: the Swiss consumer price index at the end of 2007 was 100.37, and it fluctuated around the 100-level for an extended period until 2021, from where it started to rise in 2022 and 2023, to stand at 106.9 in November 2024.*

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