Schroders

Marketing material
for professional clients only

Schroder ISF* European Special Situations

Fund Managers: Leon Howard-Spink & Paul Griffin | Fund update: October 2021

Performance overview

- European equities rose in October.
- The fund outperformed the MSCI Europe index.

Drivers of fund performance

- October was a strong month for the fund as a number of our holdings, across a variety of different industries, reported robust quarterly results.
- Several of our technology-related holdings were among the leading individual contributors to relative performance. These included semiconductor materials supplier **Soitec** and **VAT Group**, a maker of vacuum valves used in semiconductor, display and solar panel manufacturing. Both groups reported strong results, driving a positive share price reaction. Chipmaker **Infineon** also supported fund performance. It did not disclose earnings during the month but did hold an investor day where it reaffirmed medium-term growth prospects.
- Elsewhere, garden tools and machinery business **Husqvarna** also reported encouraging results. It is seeing good growth in both the lawn and gardening operations and in construction. Husqvarna also announced the acquisition of US firm Orbit Irrigation, in a deal which gives it an opportunity to expand its Gardena business into the US retail segment.
- Within healthcare, medical technology group **Getinge** aided relative performance. The group's restructuring efforts are making significant progress and profit margins were better than expected. Additionally, the orderbook is very strong.
- Another contributor was warehouse automation and supply chain solutions specialist **Kion Group**. Kion reported good Q3 results and expects order intake for 2021 to be at the upper end of the target range.
- On the negative side, care homes operator **Orpea** was a detractor. Operationally the business continues to perform well and we retain our conviction.
- **Gerresheimer**, a maker of drug packaging products, was another detractor. Demand remains strong but the company is facing some cost pressures. **Dometic**, which makes appliances for the RV and marine industries, is also facing cost pressures. It has put through price increases although it may have been slower to do so than some in the market had hoped.

Portfolio activity

- Activity was limited in October with no new purchases or complete sales.

Outlook/positioning

- Stock markets re-focused on fundamentals in October after largely being driven by style factors for much of September. Rising input costs and supply chain disruption continue to be key themes. The Q3 results season so far has shown that many of our holdings are responding well and have been able to raise their own prices in response. In addition, underlying demand remains very robust.
- While the portfolio has a bias towards growth and quality, we seek to diversify and also include companies with more cyclicality or where restructuring is key to the investment thesis. And if economic growth is sustained into 2022 then there are many companies in the portfolio who are now trading on compelling valuations and have excellent growth opportunities.
- We continue to stick to our overall investment philosophy. We favour well-run companies, with market-leading positions, unique technology, and strong growth prospects. We also continue to maintain balance between cyclicality and defensiveness.

*Schroder International Selection Fund is referred to as Schroder ISF throughout

Calendar year performance (%)

Year	Fund	MSCI Europe net return
2020	11.7	-3.3
2019	35.9	26.7
2018	-16.8	-10.9
2017	16.2	10.2
2016	1.2	2.0

Source: Schroders, as at 31 December 2020. Fund performance is net of fees, NAV to NAV with net income reinvested, EUR C Acc shares.

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.

Please see factsheet for other share classes.

Risk considerations

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.
Currency risk: The fund may lose value as a result of movements in foreign exchange rates.
Derivatives risk – efficient portfolio management: 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.
Higher volatility risk: The price of this fund may be volatile as it may take higher risks in search of higher rewards.
IBOR Risk: 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.
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.
Market Risk: The value of investments can go up and down and an investor may not get back the amount initially invested.
Operational risk: Failures at service providers could lead to disruptions of fund operations or losses.
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.

*Schroder International Selection Fund is referred to as Schroder ISF throughout