Schroders

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# Schroder ISF* European Value

Fund Managers: Andrew Lyddon & Andrew Evans | Fund update: Q4 2022

## Performance overview

- European equities gained in Q4.
- The fund outperformed the MSCI Europe index.

## Drivers of fund performance

- Stock selection was positive across a number of sectors, most notably consumer discretionary. The more positive "risk-on" sentiment during the quarter helped to support our automotive parts holdings **Schaeffler** and **Continental**. For German stocks generally, worries over high power prices and potential shortages have been allayed thanks to reductions in overall usage, plus generally mild winter weather which has seen gas prices fall.
- Among industrials, **Saipem** and **Technip Energies** – both suppliers to the energy sector - made positive contributions to fund performance. We purchased shares in Saipem in September after the rights issue, which was not fully subscribed. The market had become concerned about the deterioration of the Italian oil service company's financial position over the year owing to a number of bad contracts. A new CEO joined in summer 2022, and in October, Saipem announced a $4.5 billion contract in Qatar, representing its largest single offshore contract win in its history.
- The leading individual contributor was **Elior Group**. The quarter saw the contract catering firm negotiate a relaxation of its leverage ratio with lenders, and agree to acquire Derichebourg Multiservices.
- On the negative side, **Credit Suisse Group** was the main individual detractor.
- UK telecoms firm **BT Group** also detracted. BT is in the midst of a dispute with frontline staff over pay.

## Portfolio activity

- We initiated a new position in **Taylor Wimpey**. We have carried out a significant amount of work on the UK house builders given the very cheap valuations we are seeing owing to concerns around the profitability of the UK housing sector, and the impact of rate rises on house prices. Taylor Wimpey offers the one of the strongest risk return trades given the low valuation and a very strong balance sheet that should allow it to withstand a significant downturn.
- We initiated a new position in Belgium's **Bpost.** A number of European postal providers have seen significant share price falls, and Bpost is no different. It has been through a painful journey of acquisitions outside its core market to offset structural issues associated in its domestic mail business. However the investments look like they are starting to pay off; its US business for instance is recovering which provides a significant tailwind to group margins. The balance sheet remains solid, and we think the structural threat of traditional mail, regulatory pressure plus the short term impact of inflation and a weaker economic environment is more than compensated for in the valuation.
- Within oil & gas services, **Drilling Company of 1972** merged with Noble Corporation so our holding is now in the latter. We see the merged group as attractively valued.
- We exited **Takkt** which had reached our estimate of fair value.

## Calendar year performance (%)

| Year | Fund | Target | Comp. 1 | Comp. 2 |
|---|---|---|---|---|
| 2021 | 30.4 | 25.1 | 21.8 | 21.2 |
| 2020 | -16.6 | -3.3 | -12.9 | -7.5 |
| 2019 | 19.1 | 26.0 | 19.6 | 21.1 |
| 2018 | -12.6 | -10.6 | -11.6 | -14.5 |
| 2017 | 6.5 | 10.2 | 8.3 | 9.5 |
| 2016 | 7.0 | 2.6 | 7.4 | 3.5 |
| 2015 | 12.6 | 8.2 | 0.6 | 16.0 |
| 2014 | 3.9 | 5.8 | 5.6 | 5.4 |
| 2013 | 26,2 | 19.8 | 21.3 | 21.9 |
| 2012 | 23.6 | 17.3 | 16.4 | 21.1 |

Source: Schroders, as at 31 December 2021. Fund performance is net of fees, NAV to NAV with net income reinvested, C Acc shares. Please see factsheet for other share classes. The target benchmark is MSCI Europe NR index, comparator 1 is MSCI Value NR and

*Schroder International Selection Fund is referred to as Schroder ISF throughout comparator 2 is Morningstar Europe Large Cap Value Equity sector. The fund's investment universe is expected to overlap to a limited extent with the components of the target benchmark and the MSCI Europe Value (Net TR) index. The comparator benchmarks are only included for performance comparison purposes and do not determine how the investment manager invests the fund's assets. The investment manager invests on a discretionary basis and there are no restrictions on the extent to which the fund's portfolio and performance may deviate from the target benchmark or the MSCI Europe Value (Net TR) index.

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

**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.
**Operational risk**: Operational processes, including those related to the safekeeping of assets, may fail. This may result in losses to the fund.
**Currency risk**: The fund may lose value as a result of movements in foreign exchange rates.
**Derivatives risk**: 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. The fund may also materially invest in derivatives including using short selling and leverage techniques with the aim of making a return. When the value of an asset changes, the value of a derivative based on that asset may change to a much greater extent. This may result in greater losses than investing in the underlying asset.
**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.
**Higher volatility risk**: The price of this fund may be volatile as it may take higher risks in search of higher rewards.
**Performance risk**: Investment objectives express an intended result but there is no guarantee that such a result will be achieved. Depending on market conditions and the macro economic environment, investment objectives may become more difficult to achieve.
**IBOR**: 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.
**Market risk**: The value of investments can go up and down and an investor may not get back the amount initially invested.