

# Schroder ISF\* European Alpha Absolute Return

Fund Managers: Bill Casey | Fund update: July 2025

## Market Overview

- Equity markets in Europe were largely supportive in July, as they climbed the wall of worry of geopolitics and tariffs. Continued strong liquidity growth, fiscal spending, and hopes for more Fed rate cuts buoyed markets.
- As we entered August, the reality of global tariffs is coming sharper into view, particularly the on-off nature, which is impacting growth and investment decisions in some sectors. Despite this, cyclical stocks continued to outperform on hopes for interest rate cuts.
- The broader macroeconomic narrative may revolve more around the fiscal outlook than around tariffs, the US dollar, or geopolitical developments. The OBBB adds huge stimulus over the midterm by extending tax cuts and large deficits. The narrative of monetary debasement has been entering the frame in recent years, but there is a sense this is growing more mainstream now following the OBBB. Monetary inflation hedges, including precious metals, are performing well, while quality growth equities—such as the Magnificent 7—have reasserted their dominance in the US market. The same cannot be said for European markets where the higher quality 'GRANOLAS' have badly underperformed the European markets.
- The liquidity picture remains quite positive after having a strong move up in Q1 likely playing out in risk markets today. We are running a small net positive beta position to the market, preferring not to fight this wall of fiscal money.

## Drivers of Fund Performance

- In the month of July, the fund's net return was -1.0% compared to 0.7% for the MSCI Europe (Net TR) index, and 0.2% for the Euro Short Term Rate. Our average gross and net exposures were 190% and 10.5%. Our long book added 1.0% and our short book subtracted -1.9% in gross terms during the month. Cash and FX were flat.
- The fund has a small positive position with regards to our net exposure. We exited the month with a net exposure of +13.2% and a gross of 195%. The funds volatility is at the lower end of our 5-8% target range, the majority of which is equity specific risk.

**Past performance does not predict future returns. 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.**

## Calendar year performance (%)

Year	Fund	Comparator 1	Comparator 2
2024	7.3	8.6	3.8
2023	-6.3	15.8	3.3
2022	-1.3	-9.5	-0.0
2021	-4.0	25.1	-0.6
2020	6.0	-3.3	-0.4
2019	-7.1	26.0	-0.3%
2018	-6.6	-10.6	-0.4%
2017	1.3	10.2	-0.3%
2016	0.0	2.6	-0.3
2015	8.4	8.2	0.0

Source: Schroders, net of fees, bid-bid, with net income reinvested. EUR C Acc share class as of 31 July 2025. The fund's performance should be assessed against its objective of providing a positive return over a 12-month period in all market conditions and compared against the MSCI Europe (Net TR) index and the Euro Short Term Rate (or an alternative reference rate). The comparator benchmarks are only included for performance comparison purposes and do not determine how the investment manager invests the fund's assets. In relation to the MSCI Europe (Net TR) index, the fund's investment universe is expected to overlap materially, directly, or indirectly, with the components of the comparator benchmark. 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 MSCI Europe (Net TR) index. The benchmark(s) does/do not take into account the environmental and social characteristics or sustainable objective (as relevant) of the fund. Please see appendix III of the fund's prospectus for further details.

## Top stock contributors:

- Prysmian**, an Italian based electric cable manufacturer, performed strongly in the month due a good set of H1 results. This is a stock we bought during the trade war panic in early April but have known for some years. The business is well positioned in the electricity

infrastructure investment boom in grid, power connectivity, and subsea networks.

- **Flutter**, the global sports betting and iGaming business performed well in the month as US industry data has been coming in more strongly over the summer.
- **Astrazeneca**, the global pharma company, contributed to the month following a particularly strong set of H1 results driven by strong growth in its core Oncology franchises.
- **The short position in the Swiss-based construction materials group**, contributed positively to performance this month, as the company continued to face challenges in generating organic growth.

#### Top stock detractors:

- **Kerry Group**, the food ingredients business, was a detractor in the month despite resilient results in late July. The Staples sector in general has struggled with sharply higher sovereign yields.
- **STMicroelectronics**, the semiconductor manufacturer, suffered in the month following soft margin guidance during their H1 results. We have since exited this position.
- **Jungheinrich**, the forklift truck and logistics solutions business, detracted in the month after soft growth and margin guidance at half yearly results.
- **Short position in Industrial company focused on Industrial automation and electricals**, detracted due to better-than-expected orders in their industrial automation and electrification divisions.

## Outlook/Positioning

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- Equity markets entered 2025 awash with uncertainty and nothing has changed as we have moved through the summer.
- With regards to geopolitics, the advent a second Trump term brings with it many binary paths regarding relations with the rest of the world, and especially China. On top of this, we are faced with an eventual waning liquidity picture after several years of monetary and fiscal excess.
- How Central Banks and Governments decide to proceed from here and the reaction from bond markets matter hugely. Will the Fed be forced to stop QT? Will China properly open the fiscal books? Can Europe dig itself out of its growth malaise? Central to much of this comes back to the inflation trajectory.
- Things that worry us in the coming year include the corporate debt refinancing wall 2025/26 and if there will be sufficient liquidity growth to match it. US China trade relations and tariffs. The risk of a resurgence of inflation. We will be focusing on stock / thematic picking yet will manage portfolio risk related to the macro-outcomes mentioned above.
- To become more constructive on markets and risk we want to see both improved liquidity and lower real yields.

## Risk considerations

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**Concentration risk:** The fund may be concentrated in a limited number of geographical regions, industry sectors, markets and/or individual positions. This may result in large changes in the value of the fund, both up or down.

**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.

**Currency risk / hedged shareclass:** The hedging of the share class may not be fully effective and residual currency exposure may remain. The cost associated with hedging may impact performance and potential gains may be more limited than for unhedged share classes.

**Derivatives risk:** Derivatives may be used to manage the portfolio efficiently. The fund may also materially invest in derivatives including using short selling and

leverage techniques with the aim of making a return. 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.

**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.

**Issuer risk:** The fund is permitted to invest more than 35% of its scheme property in transferable securities and money market instruments issued or guaranteed by an EEA State / governments of the following country: France.

**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.

**No capital guarantee risk:** Positive returns are not guaranteed, and no form of capital protection applies.

**Operational risk:** Operational processes, including those related to the safekeeping of assets, may fail. This may result in losses to the fund.

**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.

**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 chosen by the investment manager. The fund may invest in companies that do not reflect the beliefs and values of any particular investor.

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