Schroders

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Schroder ISF* European Alpha Absolute Return

Fund Managers: Bill Casey | Fund update: August 2025

Market Overview

- Equity markets in Europe were largely supportive in August as they climbed the wall of worry of geopolitics and tariffs. Continued strong liquidity growth, fiscal spending, and hopes for more Fed easing buoyed markets.
- As we entered September, 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. We wait to see how this has played out in the Q3 reporting season.
- Perhaps the bigger macro story to the tariffs, the USD, and geopolitics however is the fiscal picture. The OBBB adds huge stimulus over the mid-term 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 are performing well such as precious metals and quality growth equities such as the Magnificent 7 have regained dominance in the US. The same cannot be said for European markets where the higher quality 'GRANOLAS' have badly underperformed the European markets we believe due to the global trade war.
- The liquidity picture remains quite positive, and stress indicators such as credit spreads and bond volatility are very benign. 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 August, the fund's net return was -1.3% compared to 1.1% for the MSCI Europe (Net TR) index, and 0.2% for the Euro Short Term Rate. Our average gross and net exposures were 198% and 9.0%. Our long book subtracted -1.0% and our short book subtracted -0.1% in gross terms during the month. Cash and FX subtracted 0.1%.
- The fund has a small positive position with regards to our net exposure. We exited the month with a net exposure of +9.2% and a gross of 197%. 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:

- **Antofagasta**, the Chilean based Copper/Gold miner benefitted in the month following a strong set of results where they saw a strong growth in profits driven by the copper and gold price. The business is also delivering well on their growth investment plan.

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

- **Renishaw**, the precision measurement and calibration equipment manufacturer, added to performance in the month following the retirement of its finance director.
- Short position in information services business contributed to the month having disappointed in their Q2 results update on growth. The stock also got caught up in the Ai disruption narrative that has plagued software and technology services names of late.
- **Prysmian**, an Italian based electric cable manufacturer, again 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.

Top stock detractors:

- **Relx** detracted in the month despite delivering very strong results in late July. The stock also got caught up in the Ai disruption narrative that has plagued software and technology services names of late. We have since been in contact with Management and various industry experts and are comfortable that GenAi is more of an accelerator to growth as opposed to a disruptive force.
- **Sage Group** detracted in the month having been caught up in the Ai disruption narrative that has plagued software and technology services names of late. We have been in contact with the company and industry experts and do not believe generative Ai is a threat. Rather, the tools it powers for the group, are accelerating customer stickiness and expanding the addressable market.
- **Hikma**, the generic pharmaceuticals manufacturer, detracted in the month we believe due to some disappointment in the Injectables division margin at the H1 results in August. Stronger margins in other parts of the business have meant that guidance has been reiterated. The business is in a very strong structural competitive position with a large US domestic manufacturing base where capacity is tight and competitors have to pay tariffs on imports.
- **Weir Group** detracted as the stock corrected following a strong run. Weir is a large position for the fund, so the moderate selloff was impactful. The shares have subsequently recovered in September. This business is a supplier to the mining industry within an oligopolistic market structure, and we are at the early stages of a upcycle in copper and gold mining capex. The business is well positioned for multi-year growth.

Outlook/Positioning

- 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.
- What has kept markets strong this year despite the many geopolitical and tariff issues is strong liquidity growth globally. 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 in 2026 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.

Risk considerations

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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