

# Schroder ISF\* European Alpha Absolute Return

Fund Managers: Bill Casey | Fund update: December 2025

## Market Overview

- Equity markets in Europe were positive despite lots of global geopolitical noise. The main story was a more dovish Fed and a return to 'QE-light' liquidity injections to shore up funding markets. Equity markets have gained momentum following the Fed's decision to end QT on Dec 1st and begin \$40bn per month in reserve management purchases (RPMs). Focused on the short end of the yield curve, these actions will help to alleviate the stresses that were emerging in the funding markets in Nov. With liquidity stresses alleviated late last year, markets have continued to progress strongly as the global economy holds up well.
- As always, in our view, liquidity growth and positioning matters most for markets. Global liquidity growth was very strong in 2025 and has helped drive risk assets to new highs. There are some signs this is tapering off now. Market positioning has increased in recent months and is now clearly elevated. For these reasons we have taken down the fund's market beta in January.

## Drivers of Fund Performance

- In the month of December, the fund's net return was flat (C Acc USD) compared to 2.7% for the MSCI Europe (Net TR) index, and 0.2% for the Euro Short Term Rate. Our average gross and net exposures were 205% and 12.6%. Our long book added 2.8% and our short book subtracted -2.7% in gross terms during the month. Cash and FX subtracted -0.1%.
- The fund has a small positive position with regards our net exposure, which has been decreased somewhat as we head through January. We exited the month with a net exposure of 7.7% and a gross of 207%. The fund's volatility is at the lower end of our 5-8% target range, the majority of which is equity specific risk.

## Calendar year performance (%)

**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.**

Year	Fund	Comparator 1	Comparator 2
2025	-6.6	19.4	2.2
2024	9.0	8.6	3.8
2023	-4.4	15.8	3.3
2022	0.8	-9.5	-0.0
2021	-3.8	25.1	-0.6
2020	7.6	-3.3	-0.4
2019	-4.5	26.0	-0.3
2018	-4.1	-10.6	-0.4
2017	3.1	10.2	-0.3
2016	1.2	2.6	-0.3

Source: Schroders, net of fees, bid-bid, with net income reinvested. USD C Acc share class as of 31 December 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 miner, was the top contributor in the month following a strong move in the copper price. Antofagasta is one of the world's only large-scale pure play copper miners. The investment case has many attractions including production growth, self-help, and an attractive unit cost advantage due to its gold offtake.

- **Valterra**, the South African based PGM miner (platinum group metals), performed well in the month due to sharply rising PGM prices. The mining group was spun out of Anglo American in June 2025 and we have had a chance to engage with the management team. There are multiple areas of value creation to come in the coming years, including the recasting of material processing contracts that are currently offered on very favourable terms to other miners in the region.
- **Wartsila**, the Finnish based marine engines manufacturers, had a strong month as they have begun to carve out a place for themselves in the onsite power generation market for Datacentres. Wartsila's dual fuel modular engine technology is world class.
- **HSBC** contributed in the month as the shares climbed on hopes for a continued strong wealth management and saving cycle in Hong Kong / SE Asia.

#### Top stock detractors:

- **Short position in global freight forwarder**, detracted in the month, recovering from weakness after the Q3 report in October. Despite weak underlying conditions and fundamentals, the stock has a fan base on the cost synergy story following the DB Schenker deal. We believe, whilst this deal will bring cost savings, the business has become decidedly more capital intensive and doesn't deserve the same multiple as before.
- **Short position in European based private equity fund**, detracted in the month, rebounding with the market after a period of relative weakness.
- **Short position in global Aerospace engines manufacturer**, detracted in the month as

market risk was bought. We have since exited this position as momentum in the name is too strong to be short.

- **GTT**, the French based LNG gas carrier membrane manufacturer, detracted in the month on hopes for an end to the war in Ukraine. Piped gas clearly competes with LNG, however, most of the Russian gas cannot return to Europe even if Europe wanted it, due to damages to infrastructure from the war.

## Outlook/Positioning

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- As has been the case for a few years now, equity markets are awash with uncertainty particularly geopolitical in nature.
- The post covid, post Russian war, post Liberation Day, post Chat GPT world is completely different to the one that went before. Leading stocks in this equity bull market tend to be exposed to large structural thematics such as rearmament, AI, monetary debasement, and energy security.
- At the same time, we have had a very strong liquidity cycle since the lows of 2022 which may be coming to an end or at least tapering off somewhat.
- 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

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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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