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Schroder ISF* European Alpha Absolute Return

Fund Managers: Bill Casey | Fund update: May 2025

Performance overview

– The shock of the 'Liberation Day' tariffs and then subsequent 90-day pause has led to a sharp V-shaped move in the equity markets in the past 2 months. It became clear in early April that the financial markets were heading for crisis by the speed at which credit spreads and bond markets were pricing risk. The US Administration was forced by the bond market to blink. This relief recovery has continued through May, with most equity indices now recovered to near previous highs. With regard the 'TACO' (Trump Always Chickens Out) trade, this is clearly the strong consensus as the end of the 90 -day pause draws in.

– Hard economic indicators, which tend to be more lagging, have held up well such as employment, GDP growth and inflation. Soft or more survey-based indicators have been quite weak however, highlighting a likely slowing US and Global economy over the summer. Attention has turned to Europe where almost weekly we are getting announcements on German fiscal stimulus, or higher European Defence and Infrastructure spending. There is a lead time mismatch with the support of these funds vs the short term drags from the Tariff induced global uncertainty.

– The equity market continues to 'climb the wall of worry' as no further global escalation has yet occurred (as of yet). The market remains vulnerable post the recent bounce as we head through the summer. We remain neutral from a net exposure standpoint given the binary nature of events. Positioning data shows short term investors are no longer short.

Drivers of fund performance

– In the month of May, the fund's net return was -0.5% compared to 4.7% for the MSCI Europe (Net TR) index, and 0.2% for the Euro Short Term Rate. Our average gross and net exposures were 168% and -1.4%. Our long book added 4.2% and our short book subtracted -4.5% in gross terms during the month. Cash and FX was flat.

– The fund has a neutral position with regards to our net exposure. We exited the month with a net exposure of -1.6% and a gross of 174%. 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 December 2024. 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, again performed strongly in the month due a good set of Q1 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.

– **Hiscox**, a UK Listed specialist insurer, performed strongly in May following an encouraging capital markets day laying out ambitious growth and margin targets to 2030.

– **Sigmaroc**, a lime aggregates and products supplier, performed strongly in the month following an encouraging Capital Markets Day laying out the future for growth with a sensible capital allocation plan.

– **IMI**, a specialist manufacturer of valves and actuators across multiple industries, performed well in the month following a strong set of Q1 results.

Top stock detractors:

– **Short position in UK based asset gatherer** detracted in the month. The business has a large exposure to US equities in its assets under administration. As US equities denominated in GBP continue to underperform and as the US 40/60 trade falters, the flow picture could get difficult. This thesis continues to play out year to date.

– **Short position in a global freight forwarding business** detracted in the month on continued hope for a rollback on trade tariffs.

– **Short position in UK based food retailer** detracted after having a strong positive contribution in March. Despite downgrading profit forecasts in April following a price war initiated by a competitor, a flight to defensive domestic UK stocks helped the shares bounce.

– **Short position in UK bank** detracted in the month following a continued risk rally in markets. The outlook for capital markets is however much greyer, in our view.

Outlook/Positioning

– Equity markets enter 2025 awash with uncertainty. 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 a 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

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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