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Schroder ISF* European Alpha Absolute Return

Fund Managers: Bill Casey | Fund update: February 2026

Market Overview

- Equity markets have had a strong start to the year driven by "real economy stocks" such as Materials, Semiconductors, Utilities, Telecoms, and Energy. The over arching theme in the market has shifted from what is cyclical to what is driven or disrupted by AI. Money has flown out of sectors such as software, financial services, and media, but as these multiples contract the market is looking at the second order impacts such as private equity holdings of these companies. We are being vigilant with our positioning in these various end markets and are finding lucrative themes in both the long and short book.
- This trade has extended into March with the war in the Middle East, with a continued bid on real asset stocks, commodities, and defensive sectors such as Utilities and Telecoms. The market is yet to make its mind up if this is a short term inflationary shock or is a harbinger for a fast-approaching recession. The latter is far from priced into financial markets or reflected in positioning. We are watching this energy shock closely and have taken down the funds risk somewhat.
- From a more macro standpoint, 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 of this increasingly tapering off now, accelerated by a strong USD and higher bond volatility. Market positioning remains slightly elevated. For these reasons we remain net neutral with regards to market beta.

Drivers of Fund Performance

- In the month of February, the fund's net return was 0.1% (C Acc USD) compared to 4.1% for the MSCI Europe (Net TR) index, and 0.1% for the Euro Short Term Rate. Our average gross and net exposures were 200% and -4.0%. Our long book added 4.6% and our short book subtracted -4.6% in gross terms during the month. Cash and FX were flat.
- We exited the month with a net exposure of 2.0% and gross of 195%. In regard to our net exposure, in early March we lowered it to a small negative position. The funds 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 28 February 2026. 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:

- **The short position in a European based private equity business** was the top contributor in the month as the financial markets continue to worry about the industry losses from a potentially over marked asset base. This business has a particularly high exposure to software (SaaS) and tech investments that have seen their benchmark

*Schroder International Selection Fund is referred to as Schroder ISF throughout valuations in the public markets collapse in the past six months. Questions are gathering about valuation marks, LTV ratios, and eventually debt refinancing risk.

– **KPN,** the Dutch telecom incumbent performed well in the month following strong results update and cashflow growth. Defensive domestic European sectors such as telecoms have been strong performers YTD as they are less AI disrupted.

– **Kingspan,** the global building materials business had a good month in February, following a very strong set of results and outlook. The business has a particularly good supplier position selling hot aisle containment systems into datacentres, which has been seen triple digit growth in its YTD orderbook.

– **Sirius Real Estate,** the UK & German based Industrial real estate investment trust, performed strongly in the month following a small equity raise to buy more German defence adjacent assets. With tenants such as Rheinmetall, SRE has now build up a formidable business in Germany suppling warehouse services to the rapidly growing defence industry.

Top stock detractors:

– **Flutter,** the global online sports betting and igaming platform detracted again in the month. The business has suffered a couple of months of bad luck with regards to sports results and a narrative that new Prediction Markets entrants such as Kalshi / Polymarket will eat its lunch in the regulated sports betting arena. We have spoken with Management three times already this year and believe the business is on the right track to trade well in 2026, and that the Prediction markets risk is more of an opportunity than risk.

– **A short position in a US and European supermarket business** detracted in the month in what was a flight to defensive stocks. The recent trading update was also reasonably good, ahead of our expectations. As our short thesis is not playing out, we have now exited this position.

– **The short position in the US/German based telecom operator** detracted in the month, again due to a flight to defensive non-AI disrupted names. The reality is recent trading updates have shown worsening results with regards to growth and cashflow.

– **A short position in a global brewing business detracted in the month,** a position that has performed well for months. The perceived defensive nature of the business led it to outperform, and an inline (albeit soft) set of FY25 results also brought some relief. We still see a very unexciting investment case to own such a business as underlying demand is very weak, and likely to get weaker as the current energy crisis rolls on. A recent abrupt exit from the CEO also signals issues at the business.

Outlook/Positioning

– As has been the case for a few years now, equity markets are awash with uncertainty. 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 refinancing of private market debt and investment marks particularly in the tech space. The white-collar consumer in the face of AI job worries. 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.

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