

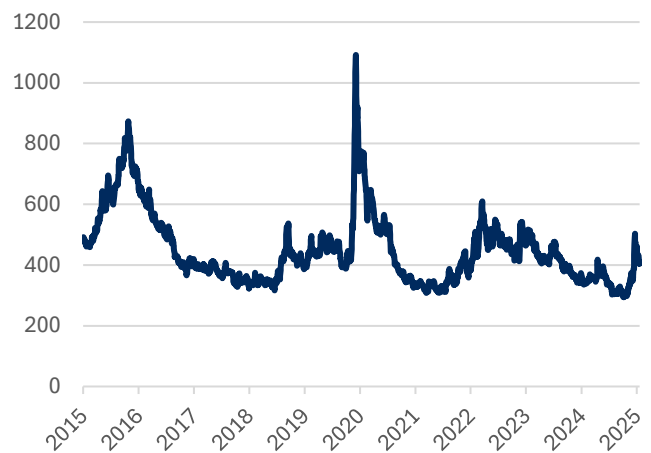
Schroder ISF* European Alpha Absolute Return

Fund Managers: Bill Casey | Fund update: April 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. It was becoming 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. The recovery since, particularly in Europe/UK, has been impressive given the still high uncertainty with regards to the tariffs, trade, and the global economy. The US – China effective trade embargo remains the elephant in the room and equity markets are now pricing in a climbdown.
- The corporate results season has generally pointed to a strong underlying economy and earnings momentum through Q1 but many companies, faced with such uncertainty, have chosen not to cut guidance this early in the year in the hope of calmer geopolitics and trade deals. The glass is clearly half full for management teams, most of which, still have 9 months of the financial year to make up guidance. Regardless, analysts are busy cutting earnings estimates. Interestingly, the global equity market has not de-rated in the past 6 weeks.
- Some positives have come out of the recent uncertainty. Oil and gas / energy prices are much lower helping drive down inflation expectations excl. the US (which have gone up due to tariffs). Interest rate curves have also dropped meaningfully globally. Central bankers are more dovish. Falling inflation expectations is a positive if a recession is avoided.
- We mentioned last month that the market was primed for a rebound due to very light positioning and still strong liquidity. Looking at market technicals, liquidity and positioning; some investor groups have not taken part in the sharp rally from the April's lows, especially faster money areas such as CTAs and Hedge funds. This suggests that if we continue to get progress on trade talks, the market could continue to climb the 'wall of worry'. The market is however, more vulnerable now post the bounce, as we head through the summer. We remain neutral from a net exposure standpoint given the binary nature of events.

**Chart 1: US HY Credit spreads (OAS), had a brief panic moment in April
A move more akin to crisis such as 2018 'Fed mistake', Covid, or the inflation panic of 2022**



Drivers of fund performance

- In the month of April, the fund's net return was 0.5% compared to -0.8% for the MSCI Europe (Net TR) index, and 0.2% for the Euro Short Term Rate. Our average gross and net exposures were 162% and 1.2%. Our long book added 0.4% and our short book added 0.1% in gross terms during the month. Cash and FX was flat.
- The fund has a neutral position with regards to our net exposure given the extreme binary nature of the macro picture. We exited the month with a net exposure of -3.6% and a gross of 172.3%. 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 (%) (needs 2024)

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:

- **B&M Value Retail**, the UK based discount retailer for both Food and general merchandise, was a strong performer after reporting better growth in Q1 than expected. The business also buys merchandise from China, which suggests they could benefit for lower prices as goods trade gets diverted from the US market.
- **Prysmian**, the Italian based electric cable manufacturer, performed strongly in the month due to tariff relief. 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.

- **Next Group** performed well in the month, as a domestic UK play away from the tariff turmoil. A weak dollar and potentially cheaper supply from Asia could also be of benefit to margins. The UK also had the sunniest March and April in decades, helping the apparel trade. This was backed up in May with a very strong trading update.
- **Short position in UK based asset gatherer** benefitted performance in the month. The business has a large exposure to US equities in its assets under administration. If US equities continue to underperform, or worse if both global equities and bonds underperform together, the flow picture could get difficult. This thesis was playing out in April.

Top stock detractors:

- **Bunzl**, the business consumables supplier / distributor detracted in month largely due to it US exposure and worries over a US recession on the back of sharp fiscal cuts and tariff worries. The company also reported a softer start of the year with regards to margins due to product price deflation. This of course would reverse in the event of tariffs.
- **Short position in UK based food retailed** 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 stocks helped the shares bounce.
- **Short position in UK bank** detracted in the month following a strong Q1 update. The outlook for capital markets is however much greyer in our view.
- **Intertek**, the global testing, inspection and assurance service provider, underperformed in the month on its perceived exposure to global trade flows. Subsequent reporting from peers has shown a robust set up.

Outlook/Positioning

- Equity markets entered 2025 awash with uncertainty. Regarding geopolitics, a second Trump term brings with it many binary paths in relationships with the rest of the world, 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 US Federal Reserve be forced to end its quantitative tightening? Will China properly implement fiscal stimulus? Can Europe extract itself from its growth malaise? Central to much of this is the trend in inflation. Issues that worry us in 2025 include: the corporate debt refinancing wall in 2025/26 and whether there will be sufficient liquidity growth to match it; US and China trade relations and tariffs; and the risk of a resurgence in inflation.
- We will focus on stock-picking and specific themes, while aiming to manage portfolio risk in line with the expected macroeconomic outcomes mentioned above. To become more constructive on markets and risk, we would like 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.

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