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Schroder ISF* European Alpha Absolute Return

Fund Managers: Bill Casey | Fund update: June 2025

Performance overview

- Despite some weakness in the European equity markets in June, the mood remains risk-on with US markets hitting new all-time highs (ATH). Cyclicals outperformed in the month as risk has been fuelled by a buoyant fiscal spending picture with the One Big Beautiful Bill (OBBB) and as we get more information on German deficit spending. A weak USD and continual benign inflation data has also enabled more risk taking globally. Regarding the Trump tariffs, the reality is more mixed with more punitive levels entering the fray in July, but again with a possibility that these are eventually negotiated down to lower levels. Thais is certainly the markets belief at ATHs.
- 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.
- Hard economic data remains benign despite the recent month's slowdown in soft indicators. This has been the story really post pandemic where inflation and jobs data has not followed the sentiment surveys. Time will tell if there is a tariff driven slowdown emerging in the US and across the world. The noise of the 90 day tariff pause, and re-stocking is perhaps why shorter cycle indicators such as purchasing manager indices (PMI) have remained stable.
- The liquidity picture remains quite positive after having a strong move up in Q1 likely playing out in risk markets today. 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 June, the fund's net return was -1.1% compared to -1.3% for the MSCI Europe (Net TR) index, and 0.2% for the Euro Short Term Rate. Our average gross and net exposures were 184% and 2.3%. Our long book subtracted -0.8% and our short book subtracted -0.5% in gross terms during the month. Cash and FX contributed 30bps.
- The fund has a small positive position with regard our net exposure. We exited the month with a net exposure of 6.7% and a gross of 184%. 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:

- **Flutter**, the global sports betting and igaming business performed well in the month as US industry data for May and June has been coming in stronger.
- **Renishaw** performed well in the month after it hosted a Capital Markets Day offering upbeat margin forecasts mid term.
- **IMI**, a specialist manufacturer of valves and actuators across multiple industries, performed well in the month following a strong set of Q1 results. Strong performance continued helped by better end market sentiment such as warehouse automation and LNG project announcements.
- **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.

Top stock detractors:

- **Short position in building material distributor** detracted in the month after a better than expected trading period despite the tariff volatility and weak end markets. US demand has coming back faster than we had thought.
- **AkerBP,** the Norwegian Oil E&P, detracted in the month with the sharp reversal of the oil price following the Israel / Iran ceasefire.
- **Hikma,** the generic pharmaceutical manufacturer detracted in the month due to a general pharma sector malaise around tariffs from the Trump administration. This is despite Hikma being a beneficiary of such tariffs as they have large domestic manufacturing capacity.
- **Berkeley Group,** the London based house builder, detracted in the month after a trading update that only reiterated profit guidance. Hope had been that a housing recovery was underway in the UK. They have seen reservations +5%, but their conservative nature has not guided for this continuing. Reality we believe there has been some mis-messaging to the market on guidance. The mini political worry in the UK was perhaps the larger reason for the selloff, with worries around the Chancellor leaving office.

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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