

# Schroder US Mid Cap Fund



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Marketing material for professional clients only.

## Market Review

The fourth quarter of 2025 capped a strong period for U.S. equities, with major indices posting their third consecutive quarterly and annual gains, while beneath the surface market leadership diverged—micro-caps led small caps, and the largest companies drove large-cap performance.

The quarter reflected resilience and rotation in equities, as markets advanced despite pockets of weakness, supported by strong earnings, AI-driven investment, macro tailwinds, and steady retail participation. At the same time, concerns around labor conditions, consumer health, and policy risks persisted, while interest rate cuts and improved trade dynamics—including tariff relief and a U.S.-China truce—provided additional support for risk assets.

Small and mid-cap performance during the quarter was led by healthcare and communications services companies. The healthcare sector rebounded strongly after suffering all year from policy uncertainty primarily focused on pharmaceutical drug pricing. Selected communication equipment companies are benefiting from the building of the AI infrastructure. There was also a rebound in some consumer sectors like services and leisure as consumer spending remained robust but selective. Software, utilities, consumer staples, and energy lagged.

Once again US large caps outperformed US small and mid-caps during the full 2025 year. Small cap and mid-cap stocks posted their third consecutive annual double-digit gain, which is above long-term average returns. However, this milestone was overshadowed by a ninth straight year of underperformance versus large caps, making it the longest losing streak since records began in 1926. Micro caps did outperform large caps in 2025, which reflects the lower quality nature of small and mid-cap performance for much of the year. Strong micro caps performance typically translates into broader small and mid-cap outperformance but not in 2025. The increasing participation of the retail investor was one factor behind smaller more speculative companies outperforming.

2025 was a year of extremes for active equity managers. The year can be described in two distinct phases: the initial nine months of the year was a difficult environment for active managers (who typically favor higher quality names) with the market led by speculative low quality and generally unprofitable companies. This was followed by a strong improvement in the fourth quarter as better than expected earnings results for Small and Mid Caps were finally rewarded by the market. After a period dominated by lower-quality and high-beta, the market shifted back towards favoring higher-quality names and valuation discipline.

## Drivers of Fund Performance

The portfolio outperformed the benchmark return of 2.7% in GBP net of fees for the quarter. The portfolio's return was 9.2% in GBP. Stock selection was the main driver of the outperformance for the quarter as sector allocation was flat. After a period of favoring volatile, high-beta stocks earlier in the year, investors shifted their focus back to companies with strong fundamentals, emphasizing solid balance sheets and disciplined valuation. This shift highlighted the market's preference for high-quality names, where financial stability and quality growth became a key driver of stock performance.

The top contributors from a sector point of view were Information Technology and Industrials. Information Technology drove a significant portion of the outperformance, particularly from communications equipment. Ciena and Lumentum, both long term holdings, were the top performers for the period as demand for AI and Cloud infrastructure continue to accelerate. IT Services also saw significant contributions within the portfolio driven by Twilio and EPAM Systems, both up over 35% for the quarter. Our thesis of owning downstream beneficiaries of AI related Cap Ex is materializing. Industrials benefitted from an overweight aerospace and defense as well as marine transportation. Tanker and bulk utilization

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remained high as longer-haul trades and cautious fleet expansion supported steady earnings across segments.

The top detractor for the quarter was Financials. Within Financials, stock selection in the banks and capital markets groups caused the bulk of the underperformance. Banks, which the portfolio is equal weight, performed well due to a combination of interest rate cuts and economic growth. Houlihan Lokey was the biggest detractor within the capital markets group. The company posted a lower-quality earnings beat driven by non-operating items, with revenues in line with consensus, while management's cautious outlook on restructuring due to slower new business and lower interest rates caused the stock to decline.

## Portfolio Activity

### Buy examples

Silgan Holdings (materials) - Silgan Holdings manufactures metal and plastic containers, primarily for food and beverage products, as well as dispensing and specialty containers for consumer goods. We purchased Silgan to replace AptarGroup as we believed it had a better thesis entering 2026. The materials sector as a whole is struggling, but Silgan is good at using acquisitions of specialty/niche companies to grow faster than the market.

Hyatt Hotels (consumer discretionary) - Hyatt Hotels is a global hospitality company that owns, operates, and franchises a portfolio of luxury, full-service, and select-service hotels and resorts. Hyatt Hotels is transitioning to a predominantly asset-light, fee-driven model that will increase its fee-based earnings from 75% to nearly 90% by 2027, reducing cyclicality and capital intensity. This shift, along with continued RevPAR (revenue per available room) outperformance, key partnerships like the Chase credit card, and monetizing owned assets, positions Hyatt for sustained earnings growth and multiple expansion.

### Sell examples

Amdocs Limited (information technology) - Amdocs Limited provides software and services for communications, media, and entertainment companies, specializing in customer experience, billing, and operational support solutions. We sold Amdocs because we felt the long-term thesis was going to take longer than expected to play out. A large customer, T-Mobile, has cut spending in 2026 which will slow Amdocs ability to accelerate growth.

Haemonetics Corporation (health care) - Haemonetics develops blood management solutions for healthcare, including products for blood collection, processing, and transfusion. We exited our position in the company due to lack of confidence in the management team following concerns about capital allocation decisions.

## Outlook/positioning

As 2026 begins, U.S. small and mid-cap equities are likely to benefit from a potential market rotation, a view that is gaining traction with Wall Street Strategists. After years of mega-cap dominance, investors are increasingly looking toward smaller, domestically focused companies for growth and diversification. This shift is supported by a favorable macroeconomic backdrop, strong earnings momentum, and structural themes that play to small-cap strengths.

The Federal Reserve's anticipated rate cuts are a key catalyst. Lower borrowing costs will ease financial pressure on smaller firms, which are typically more sensitive to interest rates. This monetary tailwind, combined with historically attractive valuations, sets the stage for a recovery in small and mid-cap performance relative to large caps.

Earnings growth expectations reinforce this narrative. Consensus forecasts project mid-to-high teens growth for small-cap indices, outpacing large-cap peers. Cyclical sectors such as industrials and financials are positioned to lead. Regional banks stand to benefit from lower funding costs and improving credit conditions, while industrial companies are poised to capture demand from infrastructure spending and reshoring initiatives. In technology, smaller firms specializing in AI-driven automation tools and cloud-based business solutions are leveraging innovation to expand margins and compete effectively as well as support the build out of the AI infrastructure. Meanwhile, some consumer discretionary names could see upside as fiscal stimulus supports domestic consumption.

We think there is significant mispricing in the market for well-established high-quality companies, which are benefiting from a much more predictable and stable economic environment than for many years. After coping with the pandemic, inflation and interest rate increases, a mini banking crisis in 2023 and then the uncertainty of tariffs in 2025, companies are much more resilient. They are leaner, better managed and, in some cases, in very good shape to beat earnings expectations. Current valuations do not reflect this potential upside. Stock picking will be more important to drive

relative returns and we suspect what is in your portfolio will matter more than what's not.

Retail investors, now accounting for over 20% of US trading volume, remain a significant force, favoring lower-priced, lower-quality stocks. Successful navigation of the small-cap landscape will require an understanding of retail flows and sentiment more than in the past. Speculative rallies in low-quality names may also cause volatility, underscoring the importance of disciplined, quality-focused strategies.

Risks to the outlook include the possibility that the earnings rebound fails to materialize, macro shocks, tighter credit, or persistent market concentration. Any significant widening of high-yield spreads or a reversal in retail investor behavior could pose headwinds. A slower-than-expected pace of Fed easing or a resurgence in bond yields could also temper gains.

The past twelve months have been among the most challenging periods for active US small-cap managers. Market leadership had come from the lowest quality, highest beta, and non-earning stocks. However, in Q4 there has been a recovery in performance in line with the market shifting back towards favoring higher-quality names and valuation discipline. We believe this will persist into 2026, suiting Schroders' investment style of focusing on quality companies.

After years of disappointment, the combination of accelerating earnings, supportive macro conditions, and a likely shift in market leadership sets the stage for a potential renaissance in small and mid-caps. If the earnings rebound materializes and market breadth improves, 2026 could mark the end of small-cap underperformance and the beginning of a new cycle of leadership. The silver lining is that historically, periods of severe underperformance have often been followed by strong subsequent performance for active managers.

### Calendar yearly performance (%)

Past performance does not predict future returns.

Period	Fund Z Acc GBP	Benchmark <sup>1</sup>	Comparator <sup>2</sup>
2025	-2.3	4.6	6.8
2024	12.5	13.4	22.0
2023	6.4	11.6	16.7
2022	-2.2	-8.4	-10.1
2021	23.5	19.2	25.2
2020	3.4	16.0	16.5
2019	25.6	24.4	24.6
2018	-6.8	-6.2	-1.2
2017	5.7	6.6	10.5
2016	42.0	41.9	30.1

Source: Schroders, MorningStar, net of fees, bid to bid, with net income reinvested. Z Acc as at 31 December 2025. Performance shown is based on the currency of the share class shown and is net of fees. Please see factsheet for other share classes. The value of investments and the income from them may go down as well as up and investors may not get back the amounts originally invested.

**Exchange rate changes may cause the value of investments to fall as well as rise.** The target benchmark has been selected because it is representative of the type of investments in which the fund is likely to invest, and it is, therefore, an appropriate target in relation to the return that the fund aims to provide. The comparator benchmark has been selected because the investment manager believes that this benchmark is a suitable comparison for performance purposes given the fund's investment objective

<sup>1</sup>Benchmark refers to Russell 2500 Net TR (Lagged) GBP.

<sup>2</sup>Comparator refers to North America.

### Performance snapshot (%)

Past performance does not predict future returns.

	3 Months	YTD	1 Year	3 Years p.a.	5 Years p.a.	10 Years p.a.	Since Inception
Fund Z Acc GBP	9.2	-2.3	-2.3	5.4	7.2	9.9	11.0
Benchmark <sup>1</sup>	2.7	4.6	4.6	9.8	7.6	11.5	11.4
Comparator <sup>2</sup>	2.1	6.8	6.8	15.0	11.3	13.4	10.9

Source: Schroders, MorningStar, net of fees, bid to bid, with net income reinvested. Z Acc as at 31 December 2025. Performance shown is based on the currency of the share class shown and is net of fees. Please see factsheet for other share classes. The value of investments and the income from them may go down as well as up and investors may not get back the amounts originally invested. **Exchange rate changes may cause the value of investments to fall as well as rise.**

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<sup>2</sup>Comparator refers to North America.

## Investment Overview

The fund aims to provide capital growth and income in excess of the Russell 2500 Net TR (Lagged) GBP (after fees have been deducted) over a 3 to 5 year period by investing in equities of medium-sized US companies.

## 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:** If the fund's investments are denominated in currencies different to the fund's base currency, the fund may lose value as a result of movements in foreign exchange rates, otherwise known as currency rates. If the investor holds a share class in a different currency to the base currency of the fund, investors may be exposed to losses as a result of movements in currency rates.

**Derivatives risk:** Derivatives, which are financial instruments deriving their value from an underlying asset, may be used to manage the portfolio efficiently. 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.

**Higher volatility risk:** The price of this fund may be more volatile as it may take higher risks in search of higher rewards, meaning the price may go up and down to a greater extent.

**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, meaning investors may not be able to have immediate access to their holdings.

**Market risk:** The value of investments can go up and down and an investor may not get back the amount initially invested.

**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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