

Schroder ISF* US Small & Mid Cap Equity

Fund Manager: Robert Kaynor, CFA | Fund update: March 2025

Performance overview

- US equities experienced a significant sell-off in March amid concerns that trade tariffs and public sector job cuts could result in slowing growth and pressure on consumers.
- The fund underperformed the benchmark during the month.

Drivers of fund performance

- Despite positive stock selection, negative sector allocation caused the underperformance.
- The top detractors for the month were energy and real estate.
- Energy, which was the only sector in the benchmark to post positive returns, detracted due to the fund's underweight position. Portfolio exposure in energy equipment and oil and gas companies lagged during March. Real estate produced negative relative returns due to the underweight to the sector and stock selection. The specialised and healthcare REIT groups were the key laggards.
- The top contributors from a sector perspective were industrials and financials.
- Within industrials, stock selection in the professional services group added value, particularly due to **WNS (Holdings)**. The business process outsourcing company has seen strong growth across all its verticals. Financials was driven by an overweight within the insurance sub-sector – the only segment of the sector that saw positive returns in March. Insurance stocks are often considered more defensive than other sectors, especially in smaller-cap stocks.
- In terms of the alpha sources¹, “steady eddies” outperformed, while the “mispriced growth” and “turnarounds” lagged.
- Major detractors included **V.F. Corporation, Azenta** and **Ciena Corporation**.
- Major contributors included **WNS (Holdings), Amdocs** and **Coterra Energy**.

Portfolio activity

- We added **Rexford Industrial Realty** and **Trex Company**.
- We exited **American Homes 4 Rent** and **AZEK Company**.

Calendar year performance (%)

Year	Fund	Target	Comparator 1	Comparator 2
2024	10.4	11.1	10.3	13.0
2023	12.2	11.3	18.4	15.0
2022	-13.3	-18.5	-20.4	-13.0
2021	21.6	17.8	19.4	24.4
2020	6.8	20.4	22.4	13.0
2019	28.9	28.6	29.9	26.7
2018	-12.4	-11.5	-10.8	-12.9
2017	15.2	17.2	16.1	15.9
2016	17.6	16.4	13.6	19.4
2015	0.7	-3.2	-2.6	-2.7
2014	11.6	7.8	8.3	10.8
2013	35.0	38.4	37.7	34.6
2012	9.1	14.7	12.0	15.0

Source: Schroders, net of fees, NAV to NAV, with net income reinvested. USD C Acc share class as at 31 December 2024. The fund's performance should be assessed against its target benchmark being to exceed the Russell 2500 Lagged (Net TR) index and compared against the Morningstar US MidCap Equity Category and the S&P Mid Cap 400 Lagged (Net TR) Index. The fund's investment universe is expected to overlap materially with the components of the target benchmark and the S&P Mid Cap 400 Lagged (Net TR) Index. The comparator benchmarks are only included for performance comparison purposes and does not determine how the investment manager invests the fund's assets. 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 target benchmark or the S&P Mid Cap 400 Lagged (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.

Past performance is not a reliable indicator of future results, prices of shares and the income from them may fall as well as rise and investors may not get the amount originally invested.

¹ We target three types of opportunities: “mispriced growth stocks” – stocks where we think the market continues to undervalue a company's growth prospects; “steady eddies” – strong companies with recurring

revenues and/or cashflows; and “turnarounds” – firms that are addressing their problems, often with new management, which are likely to outperform over time.

Outlook/positioning

- Donald Trump’s tariffs are expected to lower growth and increase inflation. The negative impact on GDP is now estimated to be greater than the initially forecast 0.5%-1%, due to the slowdown in US consumer spending and weakening sentiment. Inflation is expected to rise, with the core PCE (personal consumption expenditures) price index potentially increasing by about 2%.
- Markets will likely remain volatile while lower growth scenarios are priced in. Even though US small and mid-caps have more of a domestic bias, they still rely on global supply chains and will be caught up in market repricing. We expect small and mid-caps to suffer exponentially if a previously buoyant consumer starts to meaningfully retrench, as they bear the brunt of price increases, and a recession ensues.
- There will be some abrupt turns in the months ahead, but there is no going back. When the dust settles it is clear there will be a much wider differentiation between companies – and indeed countries – that are able to adapt to regime change and those that become paralysed. One key mantra of the Trump administration is to increase efficiencies. We can only consider what our companies are telling us and what we have learnt from the Covid situation. The companies we own tend to be nimbler after the first Trump administration and better understand their supply chains. Due to Covid, they have had to put in different backstops and have developed the means to better assess these risks, they tell us. This is something we did not necessarily see before or after Covid. They have cleaned up their balance sheets and are able to withstand volatility in the near term, which gives them flexibility. Tariff announcements will further differentiate companies, providing opportunities for active fund managers to assess winners and losers.
- The quality bias across our portfolios will be an important characteristic in a period of uncertainty and change. Companies that think about long-term planning, supply-chain resilience, diversification and customer relationships will be better able to navigate Trump’s tariffs and the resulting changes in the competitive landscape. These types of ‘good’ companies can typically experience initial selling pressure at times of heightened uncertainty and market risk, but will likely offer greater risk-adjusted returns as trade dynamics adjust and markets normalise.
- In the short-term, equity markets are driven by sentiment, with uncertainty a key negative factor. For those investors who can see through short-term noise and correctly ascertain how much uncertainty is priced in, an opportunity may well be there.
- US small and mid-cap stocks are currently pricing in an ugly recession, but recent economic data does not support this extremely bearish view. If a stagflationary environment of slowing growth and rising inflation can be avoided, current US small and mid-cap valuations are too cheap. There has been no mention yet by the new government of fiscal stimulus, which is likely to be in the form of tax cuts. A fiscal boost could help to offset the impact on growth from higher tariffs and stabilise consumer sentiment.
- Respite for the US economy, and indeed market sentiment, could come in the form of more consumer and business friendly policies, as tax reform and deregulation remain on the current administration’s agenda. The positive impact of these policies on growth, however, is unlikely to fully offset the potential negative effect of tariffs in their current form.
- We continue to diversify across different types of businesses that we define as “mispriced growth”, “steady eddies” and “turnaround” companies. Over the long term, this approach has proven to effectively manage the risk and return of the fund and deliver a better outcome than the market.

Risk considerations

Capital risk / distribution policy: As the fund intends to pay dividends regardless of its performance, a dividend may represent a return of part of the amount you invested.

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.

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. 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.

Fund Disclosure: SISF US Small & Mid-Cap Equity: The fund invests primarily in equity and equity related securities of small and mid-sized US companies. - The fund invests in equity would subject to equity investment risk. - The fund invests in concentrated region/sector and subjects to higher level of risks than a fund investing in a more diversified portfolio/strategy. - The fund may invest in smaller companies which are relatively less liquid and more volatile than larger companies. - The fund may use derivatives to meet its investment objective. Derivatives exposure may involve higher counterparty, liquidity and valuation risks. In adverse situations, the fund may suffer significant losses from their derivative usage for hedging. - For share classes with a general dividend policy, expenses will be paid out of capital rather than out of gross income. The amount of distributable income therefore increases and the amount so increased may be considered to be dividend paid out of capital. Share classes with a fixed dividend policy may pay out both income and capital in distributions. Where distributions are paid out of capital, this amounts to a return or withdrawal of part of your original investment or capital gains attributable to that

and may result in an immediate decrease in the net asset value of shares. You should not make any investment decision solely based on this document. Please read the relevant offering document carefully for further fund details including risk factors.

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.

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.

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.

Smaller companies risk: Smaller companies generally carry greater liquidity risk than larger companies, and they may also fluctuate in value to a greater extent.

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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