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Schroder ISF* US Small & Mid Cap Equity

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

Performance overview

- US equities put in a mixed performance in December but were mainly marginally down. The S&P 500 ended flat while Nasdaq was down after a seven-month winning streak reflecting some shine coming off the mega tech and AI trade. US small and mid-caps underperformed after outperforming in November. It was a muted ending to a highly unpredictable year for US stock markets.
- The fund outperformed the benchmark during the month.

Drivers of fund performance

- Stock selection was the catalyst for the outperformance with sector allocation ticking slightly positive. The month was relatively muted from a market return perspective but capped off a strong quarter for the portfolio, which outperformed the benchmark by over 600 basis points before fees.
- The top contributors from a sector point of view were Information Technology and Consumer Discretionary.
- The outperformance within Information Technology was driven by an overweight to communications equipment and stock selection within IT Services. The portfolio's holdings in Ciena and Lumentum were the top performers within the sector for the month. Consumer Discretionary was led by stock selection in the leisure products and specialty retail segments. Brunswick, which manufactures boats, marine engines and recreational marine products, performed well in the month.
- The top detractor for the month was Industrials.
- Within Industrials, the aerospace and defense and building products groups caused a drag to performance due to negative stock selection. Modine Manufacturing was the biggest laggard in the sector for the month. The stock fell in December as investors focused on near-term margin pressure from the costs of rapidly scaling its data center cooling business, overshadowing strong growth prospects and raised revenue guidance.
- In terms of the alpha sources, the mispriced growth and steady eddies outperformed while the turnarounds lagged.
- Major contributors included **Ciena Corporation, Burlington Stores, and Rentokil Initial.**
- Major detractors included **Modine Manufacturing, Masimo Corporation, and ICU Medical.**

Portfolio activity

- We added **East West Bancorp.**
- We exited **Axalta Coating Systems.**

Calendar year performance (%)

Year	Fund	Target	Comparator 1	Comparator 2
2025	4.6	11.9	7.3	7.5
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

Source: Schroders, net of fees, NAV to NAV, with net income reinvested. USD C Acc share class as at 31 December 2025. 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.

*Schroder International Selection Fund is referred to as Schroder ISF throughout

[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

- Financials and communication services led small and mid-cap performance, with regional banks responding positively to a December Federal Reserve rate cut that lowered funding costs and supported improving credit conditions. Select communication equipment companies benefited from ongoing AI infrastructure investment, while utilities pulled back after a strong year and consumer staples remained out of favor, ending the year as the only sector to post losses.
- As 2026 begins, U.S. small and mid-cap equities are likely to benefit from a potential market rotation. 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.
- 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 find the winners.
- The US economic landscape was shaped by a series of pivotal decisions and evolving trends. The Federal Reserve made the notable move to cut interest rates, but quickly signalled a pause, adopting a more neutral stance on unemployment and future rate adjustments. This shift reflected a careful balancing act, as the Fed weighed the risks.
- Labor market data presented a mixed picture: while federal job losses created temporary distortions, private sector hiring remained steady, and overall labor conditions appeared healthier than many had anticipated. Companies were not hiring aggressively, but neither were they firing, absorbing tariff shocks through productivity improvements. Wage growth trended down, with average hourly earnings at 3.5% year-on-year. Inflation readings were noisy due to data collection issues, but underlying trends suggest inflation risks remain, especially with monetary and fiscal accommodation. On the inflation front, the Fed trimmed its forecasts slightly yet remained vigilant about potential upside risks. Consumer sentiment was bifurcated: lower-income groups felt the pinch, while higher-income consumers traded down. Retailers responded with increased discounting. Trade policy developments, including tariff relief and a US-China truce, provided a tailwind for risk assets.
- Growth projections for the US were revised upward, buoyed by improved productivity, particularly from advances in artificial intelligence and the continued strength of consumer spending. Some of this optimism, however, was technical, as the government shutdown shifted a portion of economic activity into the following year. Growth should also be supported by more accommodative monetary policy and the positive fiscal impulse from the One Big Beautiful Bill. As such, the US economy is forecast to expand by around 2.5% in both 2026 and 2027. With inflation still sticky and remaining above the 2% target, nominal growth could be more like 5%-6% providing a decent backdrop for companies to increase their top line revenues.
- The worry is that the risk of higher inflation is being underappreciated by the Fed and underpriced by the market. For example, if the 10-year yield rises above 5 per cent for more than a few weeks this year it will be negative for risk assets. Other uncertainties include a change in the Federal Reserve Chair and worse than expected labor market data. However, based on current labor and inflation data, there is no clear sign of recession.
- We think generally the economic backdrop is positive for growth and we are focusing on companies which are well positioned to exploit the favorable conditions especially where we do not think the market has fully priced in potential upside.

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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