

Schroder ISF* US Small & Mid Cap Equity

Fund Manager: Robert Kaynor, CFA | Fund update: April 2026

Performance overview

- The S&P 500 and Nasdaq surged to all-time highs in April, marking for the strongest April performance since 2020 as risk appetite returned despite macro uncertainty. This rally notably extended to small caps, with the Russell 2000 posting its best monthly return since late 2024 and signalling a shift toward broader market participation beyond mega-cap leaders.
- The fund underperformed the benchmark during the month.

Drivers of fund performance

- Despite strong sector allocation, stock selection was the cause of the underperformance. The month ended with a sharp rotation into speculative, low-quality growth stocks, a move that triggered higher volatility and marginalized the fundamental research favored by active managers. These moves penalized disciplined portfolios as market leadership shifted away from high-quality companies toward more volatile, lower-tier assets.
- The top contributor from a sector point of view was Communication Services.
- Within communication services, the portfolio benefited from strong selection within the diversified telecom group, which was led by Iridium Communications. This was driven primarily by the high-value acquisition of a peer company and the rising value of its satellite network in the direct-to-device (D2D) market.
- The top detractors for the month were Information Technology and Industrials.
- Information Technology lagged due to stock selection, particularly in the semiconductor and electronic equipment groups. Small-cap semiconductors rallied in April as massive AI infrastructure spending and memory shortages triggered a speculative rotation into high-beta tech. This shift favored volatile hardware names over defensive quality stocks as broader market risk appetite rebounded. Additionally, an underweight to technology hardware weighed negatively on performance.
- In terms of the alpha sources, the mispriced growth and turnaround groups outperformed while the steady eddies lagged.

- Major contributors included **Viavi Solutions, Semtech Corporation, and Iridium.**
- Major detractors included **Everforth, ICU Medical, and Patrick Industries.**

Portfolio activity

- We added **Robert Half.**
- We exited **Leidos Holdings and Hancock Whitney.**

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.

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

- Geopolitics remained an important background consideration, particularly ongoing tensions between the US and Iran, which generated persistent headlines throughout the month. Early optimism around a possible de-escalation faded as initial talks failed to produce progress, with subsequent developments including a US-imposed blockade of the Strait of Hormuz underscoring the fragility of the situation. Despite this, equity markets largely looked through the geopolitical uncertainty, unlike other asset classes where risk premiums were more visible.
- US small and mid-cap equities delivered a strong rebound in April. Performance was overwhelmingly driven by Technology stocks, which posted outsized gains across all equity indices, including small caps. Market leadership was narrow, concentrated in high-beta, high-growth names. There was a large rotation into low quality growth towards the end of the month, a dynamic which is more difficult for active fund managers.
- The current reporting season has revealed a remarkably resilient U.S. earnings environment, characterized by rare and broad-based upward revisions across nearly all sectors and market caps. This bucking of the typical downward trend suggests an unusually strong fundamental backdrop as companies consistently outperformed expectations. This strength is being driven by accelerating nominal economic growth, lingering policy support, and a recovery in cyclical industries. Earnings growth above 15% is expected across large, mid and small caps, levels normally associated with early-cycle recoveries. However, this cycle appears different, reflecting an economy that is being supported rather than rebounding from weakness. At the same time, a meaningful rise in capital expenditure—particularly linked to AI but extending more broadly—suggests a sustained expansion phase. Overall, the combination of strong earnings momentum, broad participation and elevated investment points to a durable period of above-trend growth in U.S. equities.
- Historically, sharp rallies led by highly cyclical and high-beta stocks have often been followed by more modest returns. While valuations have risen, they remain reasonable relative to history, reinforcing the view that any near-term pause would be a healthy development rather than a change in the broader positive outlook for US small and mid-caps.
- Global composite PMI rose to a 2-month high, with manufacturing outperforming services for the second month running. Input price inflation accelerated to a 41-month high, reflecting the impact of war in the Middle East and disruptions to supply chain through the Strait of Hormuz. US PMI was improved from March but was revised down from the preliminary estimate, with input cost inflation the highest in 2026.
- First Quarter US GDP growth at 2% was strong. Consumer spending is resilient, but real income is starting to decelerate, as underlying inflation data starting to tick up. Personal Income growth continues to slow. Ultimately, we think either personal income will be revised higher, or consumer spending growth will come down from elevated levels to a level more consistent with income growth as savings rate come down. Although the headline price index (PCE) has spiked higher since the war which was expected, core inflation is also increasing modestly, which doesn’t help the cause for future rate cuts.
- Employment indicators rebounded, jobless claims fell to multi-decade lows, and consumer confidence improved. Activity data across manufacturing and retail sales pointed to ongoing momentum, although areas of weakness persisted, notably in housing, where higher rates continued to weigh on affordability and sentiment. Strength in backward looking data requires some scepticism given the potential future impacts from a prolonged conflict in the middle east.
- Treasury markets reflected heightened uncertainty, with yields rising across the curve in response to inflation concerns, higher energy prices and a more hawkish interpretation of Federal Reserve communications. Inflation signals were mixed but sticky enough to keep monetary policy expectations firmly anchored. By month-end, markets had fully priced out rate cuts for the remainder of the year, a meaningful shift from expectations earlier in the quarter.
- Our conversations with companies reflect continued confidence in spending plans and growth in the US economy which in nominal terms has one of the best growth prospects in the developed world. This contrasts with this time last year when the introduction of tariffs caused more uncertainty than the current unrest in the Middle East. The duration of the conflict could certainly change this outlook, but at the moment the situation is not changing behaviour from the companies we speak with.

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.

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