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Schroder ISF* US Small & Mid Cap Equity

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

Performance overview

- U.S. equities extended their rally in August, with the S&P 500 and Nasdaq posting their fourth and fifth consecutive monthly gains, respectively. The Russell 2000 delivered a strong month of performance, reflecting strength in smaller-cap stocks.
- The fund underperformed the benchmark during the month

Drivers of fund performance

- Stock selection was the main cause of the underperformance with sector allocation ticking slightly negative. Despite the strong performance for small caps in August, it was a difficult month for active managers as lower quality, lower cap, high beta and retail-oriented names continued to perform well.
- The top contributors from a sector point of view were Consumer Discretionary, Consumer Staples and Industrials. Within Consumer Discretionary, positive stock selection and an overweight in household durables added value. Consumer Staples benefitted from positive stock selection as well as an overweight to the sector. Consumer Staples was the worst performing area within the benchmark for the month. Industrials was led by strong stock selection within aerospace & defense as well as building products.
- The top detractors for the period were Information Technology and Health Care. Within Information Technology, stock selection within software and semiconductors were the biggest cause for the underperformance. Health Care lagged due to stock selection within the healthcare equipment group.
- In terms of the alpha sources, the mispriced growth and turnaround groups outperformed while the steady eddies lagged.
- Major contributors included **NeoGenomics, Advanced Drainage Systems** and **Cavco Industries.**
- Major detractors included **Haemonetics, LiveRamp** and **Twilio.**

Portfolio activity

- We added **e.l.f. Beauty, Inc** and **Element Solutions**
- We exited **Prosperity Bancshares** and **Chemed Corporation.**

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.

[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

*Schroder International Selection Fund is referred to as Schroder ISF throughout that are addressing their problems, often with new management, which are likely to outperform over time.

Outlook/positioning

- The U.S. equity market finds itself at a curious inflection point—buoyed by optimism yet still shadowed by uncertainty. Sentiment has turned notably bullish, as previously cautious investors now embrace risk, encouraged by a narrative that inflation is cooling, the Fed is preparing to cut rates, and the effects of tariffs are either overstated or already priced in.
- Mega caps are once again dominating performance. Small caps remain undervalued but are struggling to gain traction, weighed down by weak ISM new orders and modest earnings revisions. The Russell 2000's relative underperformance continues, despite signs of wider market stabilization. Retail investors are participating at high levels seeking out short term stories, which mostly lack any investment rigour and riding the momentum. This is causing short term market dislocation. We have seen this movie before with the likes of the meme stocks in 2021.
- Beneath the surface, the foundation is less solid. Business sentiment is not echoing the market's enthusiasm. Capex plans are being delayed or scaled back, particularly in tariff-sensitive sectors. Nearly half of CFOs surveyed plan to pass on tariff costs through pricing, a potential inflationary undercurrent that markets may be underestimating. Despite the market's strength, concerns lingered over trade policy volatility, Fed independence, and fiscal deficits. The quarter saw heightened scrutiny of US exceptionalism, culminating in a Moody's credit downgrade.
- Looking ahead, the market's trajectory hinges on a delicate balance: the realization of Fed cuts, the containment of tariff-induced inflation, and a genuine pickup in corporate investment. Any deviation be it a hawkish Fed pivot, a resurgence in inflation, or continued capex hesitation could challenge current valuations. Market attention is shifting back to the macro narrative, with a focus on the interplay between labor market data and Fed policy expectations, as well as growing speculation around the potential early appointment of a new Fed Chair. The underlying assumption is that the subsequent Fed easing will be enough to trigger a return to growth trend in early 2026.
- As the second half of 2025 begins, the equity market is showing signs of broadening strength, with small and mid-cap segments quietly building momentum. While large caps have dominated headlines, the latest data suggests that the tide may be turning driven by stabilizing earnings expectations, improving revision ratios, and historically attractive relative valuations. Looking ahead to 2026, the outlook turns even more bullish: small caps are projected to grow earnings by over 20%, mid-caps by 16.7%, and large caps by 12.9%. This sets the stage for small and mid-caps to potentially outperform large caps as early as the Q3 reporting season.
- We are conscious markets can be volatile in the quarter ahead as volumes decline amidst the holiday season. Longer term we remain optimistic, emphasizing the potential of quality growth stocks and the resilience of the U.S. consumer, who is expected to shift spending towards experiences rather than goods. We see meaningful upside in many of the portfolio's top holdings, which we believe will be recognized by the market over time. While headlines speculate about the decline of U.S. dominance, we see persistent strengths—particularly among small- and mid-cap companies—whose value remains underappreciated, with valuations still trading at multi-year discounts.

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.

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