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Schroder ISF* US Small & Mid Cap Equity

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

Performance overview

- US equities recovered in August after two consecutive monthly declines, with gains broad based across market cap and style.
- The fund performed in-line with the benchmark during the month.

Drivers of fund performance

- Despite positive stock selection, the portfolio's sector allocation caused the underperformance.
- The top contributors from a sector point of view were Information Technology and Health Care.
- Within Information Technology, the portfolio benefitted from stock selection in a handful of areas - in particular, communications equipment, electronic equipment and semiconductors**. Lumentum** was the standout performer followed by **Semtech**. Health Care was led by strong stock selection within Life Sciences and Health Care Providers. **Repligen** and **NeoGenomics** were the key contributors in the sector for August.
- The top detractor for the month was Industrials.
- The underperformance was a result of negative stock selection within Aerospace & Defense and Building Products. **Hexcel Corporation** was the top detractor within Aerospace & Defense for the month. Despite good earnings results for the previous quarter, the company issued conservative second half of 2026 as they did not roll forward the strong trends experienced in the first half of the year. Within Building Products, **Modine Manufacturing** was the key detractor in August. The company's underperformance was driven by temporary production and timing issues that pressured margins and earnings, despite continued strong demand, record orders, and unchanged FY27 guidance.
- In terms of the alpha sources, the mispriced growth group outperformed while the steady eddies and turnarounds lagged.
- Major contributors included **Repligen, Zebra Technologies** and **Lumentum**
- Major detractors included **Burlington Stores, RB Global** and **UL Solutions**

Portfolio activity

- We exited **Bio-Techne** and **DraftKings**

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.

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

Outlook/positioning

- US small and mid-caps were also beneficiaries of both market rotation and strong performance from memory related companies in the universe ending the month with positive gains outperforming large cap indices. US small and mid-cap equities experienced a particularly strong quarter and have now posted their best six month's performance since 1991 and their best relative performance Vs US large caps since 2001. This performance was led initially by AI related companies but broadened out across the market in June. This represents the benefits of a strong cyclical recovery in the US economy spilling over into smaller companies which tend to be more domestically orientated.
- Improved market breadth and a shift away from the speculative leadership that dominated earlier in the year created a more favourable environment for active fund managers. High-beta, non-earning, low-quality and high-sales-growth stocks underperformed during the month, allowing active managers to recover some lost ground.
- A key macro development during the month was the temporary easing of tensions between the United States and Iran following a ceasefire agreement. The reopening of shipping routes through the Strait of Hormuz led to a sharp decline in oil prices as energy supplies normalised. Although concerns resurfaced later in the month as hostilities threatened to re-emerge, the initial easing of geopolitical risks helped reduce pressure on commodity markets.
- Overall, the month marked a transition from narrow, mega-cap-led market leadership toward broader participation across sectors. While enthusiasm for AI remains intact, investors have become more focused on execution, profitability and valuation, creating a more discriminating environment for risk assets. At the same time, resilient economic growth and expanding market breadth provide a supportive backdrop, even as monetary policy and geopolitical developments continue to drive volatility.
- The global economy has emerged from the recent Middle East conflict in a more resilient position than initially feared. Although the disruption to the Strait of Hormuz was prolonged enough to raise concerns of a material growth shock, the actual economic impact proved relatively contained. This reflects a combination of ample oil inventories, rapid adaptation in global energy supply chains, and the continuing strength of AI-driven investment, all of which acted as effective shock absorbers.
- The US economy weathered the conflict better than most, supported by resilient consumption, improving labour market conditions, and a powerful surge in technology-related capital expenditure. While growth is not yet characterised as a full cyclical boom, the broadening of investment beyond AI, combined with easing energy prices, should underpin a strengthening expansion through late 2026 and into 2027.
- Macroeconomic developments were generally supportive of risk assets. The US economy continued to demonstrate resilience, with payroll growth remaining healthy, unemployment claims staying low and consumer spending holding up despite subdued sentiment surveys. Inflation remained above the Federal Reserve's target, leading policymakers to adopt a more hawkish tone. By quarter-end, markets had largely moved away from expectations of additional rate cuts and were instead beginning to price in the possibility of future policy tightening. Treasury yields rose during the period, while the yield curve flattened.
- US consumer wealth continues to break records due to a combination of capital markets gains, high interest-rate bearing bank and money market accounts, as well as lower tax obligations given the One Big Beautiful Bill. The increase in consumer wealth supports elevated spending patterns and thus a primary driver for stronger than trend real GDP. This approach is a better proxy of consumer health than 'excess savings' which has a limited definition of income and underestimates consumer purchasing power.
- Overall, the US economy has once again demonstrated a capacity to absorb shocks, aided this time by structural forces such as AI-driven investment and flexible energy systems. While risks remain—particularly geopolitical uncertainty and potential volatility in technology investment—the balance of risks to growth appears broadly even, with scope for upside should productivity gains from AI materialise more quickly than expected.

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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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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