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Schroder ISF* US Small & Mid Cap Equity

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

Performance overview

- November was volatile for US equities. The S&P 500 managed a small gain after a mid-month dip, marking its seventh consecutive monthly rise. The equal-weight S&P 500 outperformed, while the Nasdaq broke its winning streak. Concerns grew over the sustainability and quality of AI-related spending, especially among hyperscalers.
- The fund outperformed the benchmark during the month.

Drivers of fund performance

- Stock selection drove the significant outperformance for the month. The market shifted back to higher-quality and valuation sensitivity, while growth at any price and higher beta stumbled, which created a better backdrop for active managers. This created a better backdrop for active managers.
- The top contributors from a sector point of view were Information Technology and Health Care.
- Within Information Technology, stock selection in communications equipment contributed significantly to the outperformance. Our thesis of owning downstream beneficiaries of AI related Cap Ex is materializing. Health Care benefited from stock selection within biotechnology and health care providers. Exact Sciences was the standout performer in Health Care for the month after announcing it would be acquired by Abott.
- The top detractors for the period were Consumer Staples and Materials.
- Consumer Staples lagged due to stock selection, particularly in the personal care group. e.l.f. Beauty was the biggest laggard for the month after issuing softer than expected guidance and a revenue miss. Materials lagged form stock selection within the chemicals group as well as an underweight to metals & mining.
- In terms of the alpha sources, the mispriced growth and steady eddies outperformed turnarounds lagged for the month.
- Major contributors included **Lumentum Holdings, Exact Sciences,** and **ICU Medical.**
- Major detractors included **BWX Technologies, e.l.f Beauty, and Entegris.**

Portfolio activity

- We added **Hyatt Hotels Corporation** and **Bio-Techne Corporation.**
- We exited **Exact Sciences Corporation** and **Mohawk Industries.**

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

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

- November did mark a notable reversal in US equity market leadership for small and mid-caps. Small and mid-caps modestly outperformed large caps for the month, which was a rare occurrence and reflects the first time in 13 reporting seasons that small caps topped large caps in quarterly earnings growth. In addition, after a period dominated by lower-quality, high-beta, high-sales-growth stocks, and negative earnings, the market shifted away from the narrow focus of AI levered growth stories.
- The backdrop for active management improved as market leadership broadened and earnings growth became more diverse across sectors and styles. Health Care staged a significant comeback, contributing to strong sector gains for the month. In contrast, the lowest ROE, and highest-beta stocks, which had led the rally from the April lows, lagged in November but have still posted outsized gains since the market bottom.
- The broadening of earnings growth is expected to continue into 2026, with small and mid-caps projected to see a robust rebound in profits. While November offered a reprieve for active managers, the deep underperformance over the past eight months means 2025 has been one of the most difficult years in history for active fund managers. The silver lining is that historically, periods of severe underperformance have often been followed by strong subsequent performance for active managers.
- The month saw a major swing in expectations for December Fed easing. Initially, hawkish Fed commentary and meeting minutes lowered the odds of a rate cut, but dovish remarks from NY Fed President Williams reversed this, pushing rate cut expectations above 80% by the month-end. This was combined with some softer labour and consumer sentiment data being released following the end of the government shutdown.
- In the US, the composite PMI rose to 54.8 in October from 53.9, as business activity strengthened and both manufacturing and services grew. While confidence improved despite weak exports and rising input costs, output prices rose at the slowest pace since April. Real GDP is expected to expand by roughly 1.8–2.0% in 2025, with similar performance anticipated in 2026. This reflects a delicate balance: productivity gains from AI-driven investment are providing a tailwind, while consumer spending shows signs of fatigue and the labour market is gradually cooling.
- Inflation has retreated from its pandemic-era highs but remains slightly above the Federal Reserve's 2% target. Headline PCE inflation is projected to hover around 2.6–3.0% through 2025 before easing in 2026. Persistent tariffs and supply-side constraints keep goods prices elevated, even as services inflation moderates. The labour market, once a pillar of resilience, is softening. Job creation is slowing, with monthly payroll gains likely to fall over the next year. Participation rates remain steady, but prime-age employment has plateaued, signalling a shift from the overheated conditions of recent years.
- Fiscal support from the one big, beautiful bill for both company capex and individual tax rebates is meaningful for US small and mid-cap companies, which we expect to become more evident as we enter 2026.

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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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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