

Schroder ISF* US Small & Mid Cap Equity

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

Performance overview

- US equity markets suffered a sharp setback in March as geopolitical risk escalated materially, with the operation “Epic Fury” dominating investor sentiment and triggering a severe energy shock. Major indices sold off decisively, with the S&P 500 registering its third monthly decline in the past four months, while the Nasdaq experienced its worst month since March 2025. Market weakness was broad-based: the equal-weight S&P 500 underperformed the cap-weighted index, signalling that selling pressure extended well beyond the largest stocks and into the broader market.
- The fund underperformed the benchmark during the month.

Drivers of fund performance

- The underperformance was a combination of negative stock selection and sector allocation. The market sell-off and “risk-off” environment from the conflict in Iran caused a difficult backdrop for managers across the market cap scale. The portfolio was unable to protect in the drawdown.
- The top contributors from a sector point of view were Information Technology and Materials.
- Information technology benefitted from strong stock selection, particularly in the communications equipment and software groups. Ciena and Viavi were the notable contributors from a stock perspective as both companies continue to benefit from data center momentum. Within Materials, the portfolio benefitted from an overweight to chemicals and an underweight to the metals & mining groups. Westlake Corporation, which converts petrochemicals and polymers into essential building products, packaging materials and specialty chemicals, was the best performing stock within Materials in the portfolio.
- The top detractors for the month were Health Care and Industrials.
- Within Health Care, returns lagged due to unfavorable stock selection in the health care providers compounded by an underweight position in biotechnology, which led the sector's performance for the period. Individual laggards of note included ICU Medical and iRhythm; meanwhile, managed care holdings such as NeoGenomics remained under

pressure following a CMS rate increase announcement that came in significantly below consensus expectations. Parallel weakness in Industrials was centered in the commercial services group, which faced broad-based challenges throughout the month, with MSA Safety acting as the most significant detractor to relative results. Building products was able an area of underperformance within the portfolio.

- In terms of the alpha sources, turnarounds outperformed while the mispriced growth and steady eddies lagged.

- Major contributors included **Viavi Solutions, Permian Resources, and Iridium.**

- Major detractors included **ICU Medical, Advanced Drainage System, and ESAB Corporation.**

Portfolio activity

- We added **AptarGroup and Carlisle Companies.**

- We exited **e.l.f. Beauty and ESAB Corporation.**

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

- March was characterized by a sharp re-pricing of geopolitical risk, tighter financial conditions, and growing unease around the durability of economic growth. While equity markets showed some resilience earlier in the month, the combination of sustained energy disruption, less dovish central bank signalling, and risk of weakening data flow drove a decisive risk-off move, leaving investors more cautious as they look ahead.
- After a strong showing in February when US small caps and mid-caps outperformed their large-cap counterparts, the group held their own in March, performing virtually in line with the S&P500. While the broader small-cap indices struggled, performance varied significantly by sector with Energy and Utilities performing well, and consumer related stocks suffering.
- Several macroeconomic and geopolitical factors drove this shift in sentiment. Early in the month, rising interest rates weighed on valuations as investors reacted to persistent inflation data and adjusted their expectations for Federal Reserve rate cuts. Simultaneously, escalating tensions in the Middle East prompted de-grossing across several asset classes, presumably a flight to cash from any risk asset, no matter how "defensive – including treasuries and gold.
- US macroeconomic conditions remained broadly resilient for much of the Month. Inflation continued to run above the Federal Reserve's long-term target, and debate intensified around the health of the US labor market as hiring slowed and monthly payroll

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

data became increasingly volatile. Nevertheless, consumer spending held up well, reinforcing the view that economic momentum remained intact, albeit unevenly distributed.

- Both the Federal Open Market Committee's dot plot and the market still anticipate one rate cut this year, and the nomination of Kevin Warsh as Fed Chair later this year provided some comfort. However, there is a clear risk that an extended price shock will hinder attempts to ease policy further while a reacceleration in core inflation would even bring rate hikes onto the agenda.
- Despite some recent distortions to incoming data following the government shutdown last year, the US economy has been performing well. It is worth noting that, as a net energy exporter, the US may be shielded to some extent from the worst of the price shock particularly when it comes to natural gas.
- Duration of this conflict will determine if markets are underestimating the economic implications of the current energy shock. While oil prices have moved sharply, futures markets appear to be pricing in a relatively quick normalisation. This risks complacency, particularly as the disruption extends beyond crude oil into refined products, food prices, and wider supply chains, raising the likelihood of more persistent inflationary pressures than investors currently assume. Markets are assuming central banks will largely look through the shock, treating it as transitory. However, there is a risk that elevated core inflation increases the risk of tighter financial conditions, or at a minimum, diminished appetite for further easing. While the US economy is relatively insulated as a net energy producer, weaker growth elsewhere could feed back into the global economy over time.
- In conversations with US small and mid-cap companies we have not discerned a material reduction in confidence leading to revisions in their outlook following the outbreak of hostilities with Iran. This contrasts with the tariffs announced this time last year which caused much more uncertainty, and a quicker reaction function. The impact of the war in the Middle East to the US economy is likely to be muted if there is an imminent cessation leaving a background of relatively strong nominal growth. US nominal GDP growth is forecast to be one of the strongest in the developed markets in the year ahead which is creating a key catalyst for US small and mid-cap outperformance.

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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