Schroders

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Schroder ISF* Global Dividend Maximiser

Fund Managers: Value Team & Structured Fund Management Team | Fund update: March 2024

Performance overview

- The fund seeks to provide an income of 7%[1] p.a. via a covered call option overlay and an actively managed equity portfolio, which is primarily invested in high yielding stocks from around the world.
- Global equities saw gains in March.
- From a performance perspective, the fund outperformed the MSCI World index and the Morningstar Global Equity Income Category but lagged the MSCI World Value index.

Drivers of fund performance

- The equity portfolio outperformed the benchmark in March. Several of our banking sector holdings were among the leading individual contributors. These included **NatWest Group**, **Intesa Sanpaolo** and **Citigroup**. Banks continue to look relatively attractively valued and to announce sizeable returns to shareholders. NatWest said it plans to buy back up to £300 million of its own shares in 2024. The group confirmed that interim CEO Paul Thwaite will remain in post on a permanent basis. Italy's Intesa Sanpaolo also announced a new share buyback plan in the quarter.
- The portfolio also benefited from lack of exposure to Apple. However, zero exposure to NVIDIA in the information technology sector was detrimental for relative performance. Elsewhere, our position in tyremaker **Continental** weighed on relative returns. The firm's outlook statement was weaker than some in the market had hoped.
- US real estate brokerage **Marcus & Millichap** was also among the detractors. Hopes of imminent interest rate cuts had supported the shares in late 2023. Investors may have taken some profits now that rate cuts appear slightly more distant.
- While enhancing the income, the options were negative for performance in mark-to-market terms, weighing -0.98% (reflecting both expired trades and those with time still to expiry, USD terms). The effect was slightly negative when looking only at those options that reached their expiry date in March. In net cash terms, the four expiring tranches weighed -0.17%.
- **IBM, Intesa SanPaolo**, **AXA** and **Swiss Re** were among those to finish above their strikes, but cautious notional decisions (i.e. reducing the proportion of those holdings that we overwrite) helped to improve the degree of upside captured.

Portfolio activity and positioning

- We have initiated a new position in supermarket group **Ahold Delhaize**. We see it as a good quality food retailer with a strong balance sheet. Despite being European listed, Ahold derives c.70% of profits from the US, offering differentiation versus other European food retail holdings. The valuation has come under pressure amid the remodelling of Stop & Shop stores in the US, as well as weaker margins in Europe due to rising energy costs and weaker volume/mix. Strikes in Belgium over the company's decision to franchise some stores have also been a negative recently. However, the longer-term structural threat from Amazon and online food retail appears to have receded.
- We also bought a new holding in US consumer electronics retailer **Best Buy**. It has defended its business well against the structural threat from Amazon. There is a debate to be had over whether electronic items bought during the pandemic will soon be replaced, which would be beneficial for Best Buy, or whether the pandemic was a one-off boost to sales, which could prove negative. But we view the valuation as attractive and think the balance sheet is in sufficiently good shape.
- The current overwritten ratio on the fund is just over 55%. In other words, while continuing to deliver the income, the fund can capture upside up to the level of the individual strike prices on the ~55% overwritten, and the full extent of any upside on the ~45% without options.
- We currently employ 12 overlapping option tranches (overwriting ~4.7% of the NAV in any single tranche). This gives us a regular opportunity to respond to changes in market conditions, share price movements and dividend expectations, and reflect these in our overlay management. We also continue to carry out in-depth stock-by-stock analysis prior to each auction, assessing the volatility and strikes of each individual option we are looking to sell.

[1] The gross yield is an estimate and is not guaranteed.

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

Calendar year performance (%)

Year	Fund	Comp.1	Comp. 2	Comp. 3
2023	15.9	23.8	11.5	13.5
2022	-6.3	-18.1	-6.5	-11.8
2021	17.8	21.8	21.9	17.1
2020	-7.6	15.9	-1.2	4.6
2019	15.2	27.7	21.7	21.7
2018	-11.0	-8.7	-10.8	-11.4
2017	17.7	22.4	17.1	18.8
2016	10.3	7.5	12.3	5.6
2015	-5.9	-0.9	-4.8	-2.8
2014	4.6	4.9	3.7	1.4

Source: Schroders, as at 31 December 2023. Fund performance is net of fees, NAV to NAV with net income reinvested, C Acc shares USD. Please see factsheet for other share classes. Comparator 1 is MSCI World, comparator 2 is MSCI World Value, and comparator 3 is Morningstar Global Equity Income sector. The fund's performance should be assessed against the income target of 7% per year, and compared against the MSCI World (Net TR) index, MSCI World Value (Net TR) index and Morningstar Global Equity Income Category. 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 MSCI World (Net TR) index and the MSCI World Value (Net TR) index.

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.

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.
Currency risk: The fund may lose value as a result of movements in foreign exchange rates, otherwise known as currency rates.
Derivatives risk: Derivatives, which are financial instruments deriving their value from an underlying asset, may be used to manage the portfolio efficiently. The fund may also materially invest in derivatives including using short selling and leverage techniques with the aim of making a return. 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.
Emerging Markets & Frontier risk: Emerging markets, and especially frontier markets, generally carry greater political, legal, counterparty, operational and liquidity risk than developed markets.
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, meaning investors may not be able to have immediate access to their holdings.
Maximiser funds: Derivatives, which are financial instruments deriving their value from an underlying asset, are used to generate income (which is paid to investors) and to reduce the volatility of returns but they may also reduce fund performance or erode capital value.
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.
Stock Connect risk: The fund may be investing in China "A" shares via the Shanghai-Hong Kong Stock Connect and Shenzhen-Hong Kong Stock Connect which may involve clearing and settlement, regulatory, operational and counterparty risks.
Counterparty risk: The fund may have contractual agreements with counterparties. If a counterparty is unable to fulfil their obligations, the sum that they owe to the fund may be lost in part or in whole.
Market Risk: The value of investments can go up and down and an investor may not get back the amount initially invested.

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Subscriptions for shares of the Company can only be made on the basis of its latest Key Information Document and prospectus, together with the latest audited annual report (and subsequent unaudited semi-annual report, if published), copies of which can be obtained, free of charge, from Schroder Investment Management (Europe) S.A.

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