Schroders

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Schroder ISF* European Dividend Maximiser

Fund Managers: Martin Skanberg, Duncan Green and Structured Fund Management Team | Fund update: March 2025

Performance overview

- The fund seeks to provide an income of 7%[1] p.a. via a call option overlay and an actively managed European equity portfolio.
- Pan-European equities fell in March.
- In performance terms, the fund outperformed the MSCI Europe Index but lagged the Morningstar Europe Equity Income sector average.

Drivers of fund performance

- The equity portfolio outperformed the benchmark index in March. Our underweight exposure to the consumer discretionary sector was positive for relative returns while stock selection was positive in communication services. The underweight in energy was a detractor.
- Within consumer discretionary, lack of exposure to LVMH was supportive for relative returns. The luxury goods sector may be hit hard by US tariffs and demand from China is yet to recover.
- In communication services, our positions in telecoms group **KPN** and **Tele2** added value.
- Our position in defence groups **Hensoldt** was a positive contributor. It is clear that Europe will need to be more self-reliant when it comes to defence and Germany has loosened its borrowing rules in order to spend more on defence (as well as infrastructure). Hensoldt is well-placed to benefit given its product portfolio is geared towards what are likely to be fast-growing areas: defence electronics, surveillance equipment, etc. However, not owning Rheinmetall was a drag on relative performance.
- Elsewhere among industrials, our position in **SKF** was a detractor.
- While continuing to enhance the income, the options detracted slightly from performance in March when measured on a mark-to-market basis (reflecting both expired trades and those with time still to expiry). This was mainly related to upward moves in the early part of the month, with the options subsequently contributing positively as markets retraced.
- Looking only at those options that expired in March, there was a negative effect of -0.97% (in net cash terms) from three maturing tranches. Again, this mainly reflects strong stock performances for the first part of the year, with two of these trades carried out in December and expiring in early March (prior to the market setback). From 138 option positions sold across the three expiring tranches, 53 finished above their strike prices. These included **Intesa Sanpaolo**, **Iveco**, **Siemens**, and **Svenska Handlesbanken**, but cautious notional decisions (i.e. reducing the proportion of these holdings that we overwrite) helped to improve the upside captured.

Portfolio activity

- Complete sales during the month included **Informa**. New positions were **BASF** and **Chemring**. Chemring is a small cap stock that has been left behind by the market's preference for large cap growth. It produces products based on energetic materials (explosives, propellants) as well as sensors for hazard detection in both military and civilian spheres. Lack of supply of these products is currently a bottleneck in Europe and we see good growth potential.

Outlook/positioning

- As of early April, the announcement of trade tariffs by the US has created a surge of volatility across markets. It remains to be seen how this will play out given negotiations over the tariffs will soon get under way. Prior to the tariff news, the relaxation of Germany's fiscal rules was starting to translate into improved business sentiment. There is scope for the retooling of automotive plants into defence equipment production instead.
- Turning to the option overlay, equity markets have seen a marked increase in volatility over the past few weeks, with the often-cited VIX Index reaching levels not seen since the Covid setback.
- We continue to be cautious in the overwriting given the propensity for significant short-term share price swings, but it is worth reiterating that we sell single-stock covered call options.

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

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

- We are continuing to see attractive pricing for the single-stock options that we sell. Through our competitive auction process, we are looking to pinpoint pockets of relative value, and continue to actively manage the overlay. This includes carrying out in-depth stock-by-stock analysis prior to each auction trade, and being active during the auction to remove names, at point of trade, should we feel any specific options are not being competitively priced.
- Our caution means that many of the stocks are either partially overwritten, or not overwritten at all. In aggregate, less than half of the fund's NAV is currently overwritten. As such, the fund can capture upside up to the level of the individual strike prices on the ~45% overwritten, and the full extent of any upside on the ~55% without options. Through this active approach, we are looking to deliver the enhanced level of income, while positioning the fund to participate strongly in any rebound.

Calendar year performance (%)

Year	Fund	Comp 1	Comp 2
2024	5.6	8.6	6.8
2023	10.0	15.8	13.7
2022	-12.2	-9.5	-8.1
2021	14.4	25.1	20.7
2020	-25.0	-3.3	-6.8
2019	16.2	26.0	21.8
2018	-5.1	-10.6	-11.7
2017	4.8	10.2	7.9
2016	2.9	2.8	0.4
2015	3.6	8.2	9.9

Past performance is not a guide to future performance and may not be repeated. The value of investments and the income from them may go down as well as up and investors may not get back the amount originally invested.

Source: Schroders, as at 31 December 2024. Fund performance is net of fees, NAV to NAV with net income reinvested, EUR C Acc shares. Please see factsheet for other share classes. Comparator 1 is the MSCI Europe index; comparator 2 is Morningstar Europe Equity Income sector. The fund's performance should be assessed against the income target of 7% per year, and compared against the MSCI Europe (Net TR) index and the Morningstar Europe Equity Income Category. The comparator benchmarks are only included for performance comparison purposes and do 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 MSCI Europe (Net TR) index.

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: If the fund's investments are denominated in currencies different to the fund's base currency, the fund may lose value as a result of movements in foreign exchange rates, otherwise known as currency rates. If the investor holds a share class in a different currency to the base currency of the fund, investors may be exposed to losses as a result of movements in 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.
Sustainability risk: The fund has environmental and/or social characteristics. This means it may have limited exposure to some companies, industries or sectors and may forego certain investment opportunities, or dispose of certain holdings, that do not align with its sustainability criteria chosen by the investment manager. The fund may invest in companies that do not reflect the beliefs and values of any particular investor.
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 macroeconomic environment, investment objectives may become more difficult to achieve.
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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