Schroders

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Schroder ISF* European Dividend Maximiser

Fund Managers: Martin Skanberg, Duncan Green and Structured Fund Management Team | Fund update: December 2024

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 December.
- In performance terms, the fund performed in line with the MSCI Europe Index and Morningstar Europe Equity Income sector average.

Drivers of fund performance

- The equity portfolio performed in line with the index in December. Positioning in information technology and financials supported relative returns, while negative influences came from stock selection in utilities and the underweight in consumer discretionary.
- Within financials, our positions in banks **Intesa Sanpaolo** and **Bank of Ireland** added value, as did insurer **Legal & General**.
- In information technology, it was a better month for semiconductor stocks and our position in semiconductor equipment manufacturer **ASM International** added value. Software firm **SAP** was another positive contributor.
- On the negative side, our holdings in utilities **EDP** and **SSE** weighed on relative returns.
- In healthcare, generics and biosimilars maker **Sandoz Group** was a detractor. The shares have performed well this year and there was some profit-taking amid the preference for cyclicals.
- Lack of exposure to LVMH also weighed on relative returns as December proved to be a better month for the luxury goods sector following a period of weakness.
- While continuing to enhance the income, the options marginally added to performance in December, contributing +0.02% (measured on a mark-to-market basis, reflecting both expired trades and those with time still to expiry).
- Looking only at those options that expired in December, there was a negative effect of -0.12% (in net cash terms) from three maturing tranches. From 128 option positions sold across the three expiring tranches, 26 finished above their strikes. These included **SAP, Swiss Re** and **Standard Chartered**, but cautious notional decisions (i.e. reducing the proportion of these holdings that we overwrite) helped to improve the degree of upside captured.

Portfolio activity

- We have sold out of **Stellantis**, **Beiersdorf** and **ConvaTec**.
- New positions in the equity portfolio include **AstraZeneca**, **Hensoldt** and **Novonesis**.

Outlook/positioning

- Investors await Donald Trump's inauguration as US president to find out more details of his policy agenda, including trade tariffs which may have a substantial impact on certain sectors in Europe. We are also awaiting political developments in France and Germany. The situation in France looks quite difficult given political fragmentation and little agreement on how to proceed.
- The situation in Germany, however, looks more encouraging. Germany clearly faces multiple challenges to its industrial model but there does appear to be recognition that change is necessary. A key issue remains the potential reform of Germany's debt brake, which could enable greater borrowing to allow for more aid to Ukraine as well as more spending on defence and infrastructure.
- European shares remain attractively valued when compared to the US. Meanwhile, sectors such as banks and insurers offer attractive income.
- Within the overlay, we currently employ six overlapping option tranches (overwriting ~10% of the NAV in any single tranche). This creates regular expiries and hence regular opportunity to trade new options. The current overwritten ratio is just under 60%. 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 ~60% overwritten, and the full extent of any upside on the ~40% without options. We remain very aware of spike risk, applying notional decisions on several names.

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

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

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.

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

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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