

Schroder ISF* European Dividend Maximiser

Fund Managers: Nicholette MacDonald-Brown and Structured Fund Management Team |
Fund update: March 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 gained in March.
- In performance terms, the fund lagged the MSCI Europe Index and the Morningstar Europe Equity Income sector average.

Drivers of fund performance

- The equity portfolio underperformed the index in March. Stock selection in consumer staples and financials weighed on relative returns. Stockpicking in consumer discretionary added value.
- Among financials, **Handelsbanken** was the main individual detractor although the share price move reflected the payment of the special dividend in mid-March. Financials, and banks in particular, performed well in March as expectations of interest rate cuts were pushed out. Banks also continue to be an attractive source of investor income amid higher dividends and ongoing share buyback programmes. Not owning some of the large Spanish and French banks weighed on relative returns but we do own **Intesa Sanpaolo** and **Bank of Ireland**, which were both among the top contributors.
- Another detractor was household and personal care firm **Reckitt Benckiser**. It was generally a weak month for more defensive areas of the market.
- **HelloFresh** also weighed on relative returns. The meal kit industry is going through a challenging period, particularly in the US which is a key market for HelloFresh. Additionally, HelloFresh issued a profit warning.
- On the positive side, medical products group **Convatec** is a business that was overlooked last year but the market is now appreciating its growth potential. Management has invested in research & development and there are new product launches to come.
- In the consumer discretionary sector, **Stellantis** added value.

- While continuing to deliver the enhanced income, the options weighed on performance in March (-0.93%, 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 March, there was a negative effect of -0.79% (in net cash terms) from three maturing tranches. The first two expiries spanned a period when the underlying equities rallied strongly. From 124 option positions sold across the three tranches, 51 finished above their strikes at expiry. These included **Novo Nordisk**, **Intesa Sanpaolo**, **Svenska Handelsbanken** and **SAP**, but cautious notional decisions on the latter three (i.e. reducing the proportion of these holdings that we overwrite) helped to improve the degree of upside captured.

Portfolio activity

- We exited the remaining small position in Alcon.

Outlook/positioning

- European shares have had a strong start to 2024. March brought signs that investors are now seeking out lowly valued and unloved areas of the market, rather than sticking with recent winners. If this trend persists, then it should prove positive for Europe relative to the US, value rather than growth, and for smaller companies relative to larger ones. Indeed, flows into European equities are showing signs of improvement. The path of interest rate cuts is increasingly well understood and it appears investors are keen to take on more risk.
- Within the overlay, we currently employ seven overlapping option tranches (overwriting ~9% 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 65%. 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 ~65% overwritten, and the full extent of any upside on the ~35% 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.

Calendar year performance (%)

Year	Fund	Comp 1	Comp 2
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
2014	4.0	6.8	6.7

Source: Schroders, as at 31 December 2023. 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.

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.

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.

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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