

Schroder ISF* European Dividend Maximiser

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

Drivers of fund performance

- The equity portfolio outperformed the index in June. Positioning in information technology supported relative returns.
- Within information technology, our holding in software firm **SAP** was the main individual contributor. The software sector had previously lagged amid fears that corporate spending on AI would leave little budget for other applications. However, it is increasingly recognised that SAP will be an exception to this given the importance of its suite of enterprise resource planning products to businesses.
- Our semiconductor equipment holdings **ASM International** and **ASML Holding** also added value. Both companies are enablers of the artificial intelligence revolution offering advanced solutions for the manufacture of memory chips. Momentum looks set to accelerate into 2025 and 2026.
- Several of our banking sector holdings supported fund returns including **Skandinaviska Enskilda Banken** and **Handelsbanken**. Shareholder returns remain a key part of the appeal of banking stocks.
- Chemicals distributor **Azelis Group** was among the main individual detractors. In May, its major shareholder EQT placed some shares at a discount.
- Carmaker **Stellantis** was another detractor as the group delivered weak guidance on volumes and pricing.
- While continuing to enhance the income, the options added slightly to performance in June (+0.13%, 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 June, there was a positive contribution of +0.12% (in net cash terms) from three maturing tranches. From 118 option positions sold across the three expiring tranches, only 18 finished above their strikes. These included **Intesa Sanpaolo**, **Novartis** and **Swiss Re**, 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

- There were no new buys or complete sales in the month.

Outlook/positioning

- The news of the French parliamentary elections took markets by surprise. Some French domestic stocks in particular saw weak performance in June. We do not invest on a country basis but instead focus on stock specifics. The question will be whether any further selling of French equities results in opportunities that look attractively undervalued.
- Elsewhere, the Q1 reporting season came to a close in June. This was largely positive outside the energy and materials sectors. There is recognition that Q1 was the trough for earnings and sales and profits should pick up from here.
- While the European Central Bank has cut interest rates, it is unclear how many more cuts may be coming. A shallow cutting cycle could mean rate support for sectors like financials remains intact.
- 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 over 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.

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 |
|------|-------|--------|--------|
| 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.

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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