

Schroder ISF* Asian Dividend Maximiser

Fund Manager: Richard Sennitt and Structured Fund Management Team | Fund
update: Q2 2024

Performance overview

- The fund aims to provide an income of 7%¹ p.a. via a call option overlay and an actively managed Asia Pacific (ex Japan) equity portfolio.
- Pacific ex Japan equities rose in the second quarter, in US dollar terms, and outperformed both emerging markets and developed world markets in aggregate.
- Taiwan was the best-performing index market, thanks to ongoing strength in the technology sector, especially AI-related stocks. China also gained and beat the index as economic data generally improved, while Singapore was another outperformer.
- Conversely, Indonesia and the Philippines were notably weak.
- The fund was broadly in line with the MSCI AC Pacific ex Japan (Net TR) index, but lagged the MSCI AC Pacific ex JP High Dividend Yield index.

Drivers of fund performance

- In the equity portfolio, at the regional level, stock selection was strong, particularly in Taiwan, China and Korea, helping to offset weak returns in Singapore. Market allocation had a negative effect, with the overweight to Indonesia and the underweight to China hurting performance. The overweight to Singapore lifted returns, however.
- In terms of sectors, while selection was notably positive in financials, this was more than offset by weak returns in communication services. Sector allocation proved to be beneficial, specifically the overweight to information technology and underweight to industrials more than offsetting the overweight to real estate.
- While continuing to generate the enhanced income, the options weighed on performance during the quarter (-0.65% measured in mark-to-market terms, reflecting expired options and those yet to expire).
- The effect was -1.36% in net cash terms (reflecting only expired options) as eight tranches reached maturity, although this was within expectations given the underlying share price gains. One three-month trade (traded in early January and expiring in early April) accounted for the majority of this, spanning a period of strong performance for the underlying portfolio,

particularly the tech names. A total of 282 option positions were sold across the eight expiring tranches, of which 89 finished above their strike prices (requiring a settlement).

- **TSMC, Hon Hai, Mediatek** and **NAB** have been among the stocks to finish in-the-money; however, having had notional decisions in place on all of these names (indicating caution in the overwriting), we were able to capture a greater share of the increase than if the stocks had been fully overwritten.

Outlook/positioning

- Despite the more hawkish outlook regarding US interest-rate cuts, sentiment towards the broader equity markets remains constructive as investors continue to discount a soft landing for the US economy.
- In China, while structural challenges remain, there have been signs of more 'self-help' among corporates recently, including on shareholder returns where we have seen a notable increase in buyback activity. Although, we are encouraged by some recent steps from the government to more fully support the property market, further support will likely be required together with steps to address the low levels of consumer demand. We remain underweight China without a significant change in our positioning, but continue to look for bottom-up opportunities there which have upside to fair value on a medium to long-term investment horizon. We retain our preference for Hong Kong, where valuations are generally lower, and shareholder returns historically have been more of a focus for management teams.
- Although dividends have recovered with earnings, there are questions as to where near-term dividend payments will go, given the ongoing economic uncertainties and downward earnings pressure on stocks across the region. This will likely continue to have an impact on dividends in some of the more cyclical areas, as we have seen in resources. However, aggregate corporate balance sheets look relatively robust and company profitability has recovered from the pandemic lows, meaning dividend payout ratios are not extended. In the medium-to-long term, dividends tend to follow earnings.

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

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

- We continue with our bottom-up investment approach and look for good companies where we can clearly see a strong income case and the potential for capital growth.
- For the overlay, we continue to employ multiple overlapping option trades (overwriting around 8-8.5% of NAV in any single tranche). This creates regular expiries and regular opportunity to trade new options, meaning we can tailor the overlay as markets move and help smooth through shifts in share prices, volatility and dividend expectations. At present, around 50% of the NAV is overwritten, on which we can capture upside up to the individual strike prices. Around 50% has no options and can therefore rise unconstrained.

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 (%)

	Fund Net	Comparator 1	Comparator 2
2023	9.4	5.2	14.2
2022	-9.6	-18.8	-6.8
2021	3.9	-5.8	6.5
2020	10.2	23.0	1.5
2019	14.4	20.3	15.1
2018	-8.8	-14.5	-8.6
2017	26.0	36.9	24.8
2016	8.5	7.5	10.3
2015	-7.2	-9.6	-16.3
2014	5.4	1.5	4.2

Source: Schroders, net of fees, NAV to NAV, with net income reinvested. C Acc share class, as at 31 December 2023. The fund's performance should be assessed against the income target of 7% per year and compared against the MSCI AC Pacific ex Japan (Net TR) index (comparator 1) and MSCI AC Pacific ex JP High Dividend Yield index (comparator 2). 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 comparator benchmarks.

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.

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.

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.

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.

China risk: If the fund invests in the China Interbank Bond Market via the Bond Connect or in China "A" shares via the Shanghai-Hong Kong Stock Connect and Shenzhen-Hong Kong Stock Connect or in shares listed on the STAR Board or the ChiNext, this may involve clearing and settlement, regulatory, operational and counterparty risks. If the fund invests in onshore renminbi-denominated securities, currency control decisions made by the Chinese government could affect the value of the fund's investments and could cause the fund to defer or suspend redemptions of its shares.

Market risk: The value of investments can go up and down and an investor may not get back the amount initially invested.

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.

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