Schroders

Marketing material for professional clients only

Schroder ISF* Asian Dividend Maximiser

Fund Manager: Richard Sennitt and Structured Fund Management Team | Fund update: July 2025

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 (as measured by the MSCI AC Pacific ex Japan NR) posted strong gains in July in USD terms.
- The fund was also up, lagging the MSCI AC Pacific ex Japan index but in line with the MSCI AC Pacific ex Japan High Dividend Yield (Net TR) index.

Drivers of fund performance

- The underlying equity portfolio delivered a positive return but underperformed the MSCI AC Pacific ex Japan Index (comparator index).
- At the regional level, stock selection had a marginally positive effect. It was strong in Korea and Australia, helping to offset negative returns in China. However, the small exposure to off-benchmark India and underweight to China detracted.
- In terms of sectors, allocation weighed on performance, especially the underweight to healthcare. While selection was positive in financials and information technology, it was marginally negative overall, largely due to weak relative returns in communication services.
- While continuing to generate the enhanced income, the options were negative for performance in July in mark-to-market terms, weighing -0.65% (reflecting expired options and those yet to expire). This was well within expectations given the gains in the underlying equity positions.
- The options were also negative when measured in net cash terms (reflecting only expired options), weighing -0.44% as three tranches expired. A total of 111 option positions were sold across the three tranches, of which 38 finished above their strike prices (requiring a settlement). TSMC, Telstra, BOC Hong Kong and KB Financial were among the stocks to finish in-the-money. We had notional decisions in place on all of these. As such, while we had to make settlements, we were being cautious around these names and were able to capture a greater share of the increase than if the stocks had been more fully overwritten.

Outlook/positioning

- July was another strong month for Asian equity markets, with the regional index at its highest level in more than three years. After the sudden sell-off in April, markets have benefitted from a continued rebound in risk appetite globally.
- Given the still uncertain backdrop, Asian currencies have strengthened in recent weeks against the dollar. With the US Federal Reserve now expected to cut rates further in the second half of the year, the liquidity backdrop for regional markets could be further improved, supporting capital flows and valuations.
- Although the economic backdrop in China remains fragile, and the export slowdown could exacerbate deflationary forces, China has more policy flexibility than many regional economies to help soften the blow. Furthermore, the enormous breadth of the local equity market offers a greater range of bottom-up opportunities than in most other markets. We remain underweight the China market, albeit partly offset by an overweight to Hong Kong.
- Confidence has improved in recent weeks on the outlook for AI-related capex on new data centre infrastructure around the world, as leading US cloud service providers reiterated that their capex budgets would rise in 2026, much of which will flow through Nvidia into the Asian supply chain.
- Among export-oriented stocks, our focus remains on companies that demonstrate clear market leadership, product innovation and pricing power. Where valuations are compelling for best-in-class exporters, we will add to positions, with a view to a longer-term recovery in share prices, as the tariff impact gradually fades, and the underlying growth of these companies reappears.
- Turning to dividends, payout ratios remain reasonable and underlying earnings are looking positive, which could lead to corresponding growth in local dividends. Perhaps a bigger unknown is the outlook for currencies. Over the last two years, the pound has been relatively strong against the dollar and a number of Asian currencies, which has been a headwind for dividends.

[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, while remaining disciplined about valuations. We remain heavily underweight China, although we are overweight Hong Kong which offsets this to some extent. We are also overweight Singapore. Sectorally, our largest overweights continue to be real estate, financials, and consumer staples. The largest underweights remain consumer discretionary, industrials and health care sectors.
- Turning to the option overlay, we continue to be cautious in the overwriting given the propensity for significant short-term share price swings. We are continuing to see attractive pricing for the single-stock options that we sell and continue to actively manage the overlay - through our competitive auction process, we are looking to pinpoint pockets of relative value. 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, where we feel the 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 60% 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 <60% overwritten, and the full extent of any upside on the >40% 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 periods of rebound.

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
2024	5.6	10.1	12.8
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

Source: Schroders, net of fees, NAV to NAV, with net income reinvested. C Acc share class, as at 31 December 2024. 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.