

Schroder ISF* Asian Dividend Maximiser

Fund Manager: Richard Sennitt and Structured Fund Management Team | Fund update: Q1 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 rose mildly over the first quarter, in US dollar terms, and outperformed developed world markets in aggregate.
- China was the top-performing market by far, rising by 15% despite investor concerns over looming trade tariffs on imported goods into the US. The market benefited from optimism about China's AI capabilities following the initial release of DeepSeek's lower-cost open-source AI model in January. The announcement towards the end of the quarter of stimulus measures aimed at supporting domestic consumption also boosted share prices. Korean equities outperformed, led by a rebound in semiconductor manufacturers. Singapore was also strong.
- Conversely, Thailand, Indonesia and Taiwan all fell by over 10%. Australian equities also weakened.
- The fund produced a slightly positive return over the quarter. Performance lagged the MSCI AC Pacific ex Japan index and MSCI AC Pacific ex Japan High Dividend Yield (Net TR) index for the quarter, despite holding up well in the March retracement.

Drivers of fund performance

- In the equity portfolio, at the regional level, allocation had a negative effect, largely due to the underweighting of China, where stock selection was also notably weak. Internet companies performed particularly strongly over the period in China. This trend presents a significant headwind for income-oriented funds, considering the limited yield opportunities in this sector. Stock selection was positive, however, particularly in Hong Kong and Australia.
- In terms of sectors, selection detracted mildly, with weak returns in consumer discretionary and communication services offsetting strong performance in financials and real estate. The underweight to consumer discretionary also proved to be detrimental. These negative drivers largely reflect the underweight to Chinese internet names.

- While continuing to generate the enhanced income, the options were largely flat for performance during the quarter when measured in mark-to-market terms (-0.07%, reflecting expired options and those yet to expire).
- The effect was positive (+0.29%) in net cash terms (reflecting only expired options) as eight tranches expired. A total of 274 option positions were sold across the eight expiring tranches, of which 45 finished above their strikes (requiring a settlement).
- **OCBC Bank, DBS, UOB and Coles** were among the stocks to finish in-the-money. We had notional decisions in place on all except OCBC. As such, while we had to make settlements, we were being cautious around most of these names and were able to capture a greater share of the increase than if the stocks had been more fully overwritten.

Outlook/positioning

- The relative calm in markets up until late March was shattered by the announcement of very aggressive US tariffs on imports from Asia, and other countries worldwide, at the beginning of April. Although well telegraphed by the Trump administration, the size of the tariffs and their global reach was far more aggressive than expected. Markets took the view that this would drive prices significantly higher in the US, reducing final demand as purchasing power would be squeezed, and raising the risk of the US economy heading towards a recession over the coming quarters. With Asian exports likely to be hit hard in this scenario, and consumer and corporate confidence also weaker, economic growth in the region was also at risk.
- Shortly after they went into effect, most of the tariffs (but not those on China) were suspended for 90 days, leading to relief rallies in many markets. Markets are likely to remain very volatile while policy remains uncertain.
- Within China, we would expect to see further supportive policy measures in the coming weeks and months to try and counter the drag on GDP growth from weaker exports later this year. Although the economic backdrop in China remains fragile, and the export slowdown could

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

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

exacerbate deflationary forces, China has some policy flexibility to help soften the blow. We remain underweight the China market, albeit partly offset by an overweight to Hong Kong. A significant portion of the underweight in China is due to our lack of exposure to the internet platform companies, which are a significant part of the benchmark. These companies pay little or no dividend, and this looks unlikely to change significantly in the near term; hence, the positioning.

- Aggregate valuations for regional equity markets have pulled back towards longer-term average levels in recent days. However, we are a long way from the trough multiples seen at times of real macroeconomic stress in global or regional recessions. A sharp slowdown in global growth would put earnings forecasts at risk across the region and undermine valuation support. A swift reduction in trade tensions, meanwhile, could see a sharp rebound in markets.
- 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.
- 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.
- Turning to the option overlay, equity markets have seen a marked increase in volatility over the past few weeks, with the often-cited VIX Index reaching levels not seen since the Covid setback.
- We continue to be cautious in the overwriting given the propensity for significant short-term share price swings, but it is worth reiterating that we sell single-stock covered call options.
- We are continuing to see attractive pricing for the single-stock options that we sell. In recent days, this has been coming through particularly in markets such as Taiwan and Korea that have been worst affected by market moves.
- Through our competitive auction process, we are looking to pinpoint pockets of relative value, and continue to actively manage the overlay. 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, should we feel any specific 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, just under 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 whenever markets 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.

Important Information: Marketing material for professional clients only. This document does not constitute an offer to anyone, or a solicitation by anyone, to subscribe for shares of Schroder International Selection Fund (the "Company"). Nothing in this document should be construed as advice and is therefore not a recommendation to buy or sell shares. An investment in the Company entails risks, which are fully described in the prospectus. Subscriptions for shares of the Company can only be made on the basis of its latest Key Investor Information Document and prospectus, together with the latest audited annual report (and subsequent unaudited semi-annual report, if published), copies of which can be obtained, free of charge, from Schroder Investment Management (Europe) S.A. Schroders may decide to cease the distribution of any fund(s) in any EEA country at any time but we will publish our intention to do so on our website, in line with applicable regulatory requirements. For Luxembourg, these documents may be obtained in English, free of charge, from the following link: www.eifs.lu/schroders. For the UK, these documents may be obtained in English, free of charge, from the following link: www.eifs.lu/schroders. The fund has environmental and/or social characteristics within the meaning of Article 8 of Regulation (EU) 2019/2088 on Sustainability-related Disclosures in the Financial Services Sector (the "SFDR"). For information on sustainability-related aspects of this fund please go to www.schroders.com. For the UK only: This product is based overseas and is not subject to UK sustainable investment labelling and disclosure requirements. Any reference to sectors/countries/stocks/securities are for illustrative purposes only and not a recommendation to buy or sell any financial instrument/securities or adopt any investment strategy. 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 amounts originally invested. Exchange rate changes may cause the value of investments to fall as well as rise. The views and opinions contained herein are those of the individuals to whom they are attributed and may not necessarily represent views expressed or reflected in other Schroders communications, strategies or funds. Information herein is believed to be reliable but Schroders does not warrant its completeness or accuracy. Schroders will be a data controller in respect of your personal data. For information on how Schroders might process your personal data, please view our Privacy Policy available at www.schroders.com/en/privacy-policy or on request should you not have access to this webpage. A summary of investor rights may be obtained from <https://www.schroders.com/en/lu/professional-investor/footer/complaints-handling/>. Issued by Schroder Investment Management (Europe) S.A., 5, rue Höhenhof, L-1736 Senningerberg, Luxembourg. Registered No. B 37.799. For your security, communications may be taped or monitored. Distributed in the UK by Schroder Investment Management Ltd, 1 London Wall Place, London EC2Y 5AU. Registration No 1893220 England. Authorised and regulated by the Financial Conduct Authority.