

Schroder ISF* Asian Dividend Maximiser

Fund Manager: Richard Sennitt and Structured Fund Management Team | Fund update: Q4 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 fell in the fourth quarter in the face of a stronger dollar and higher US bond yields. The Federal Reserve cut interest rates by 25 basis points at its December meeting but indicated that ongoing persistent inflation may mean there are fewer cuts in 2025 than previously anticipated, which caused markets to sell off.
- Korea was the weakest-performing market on the back of political instability after President Yoon Suk Yeol was impeached following his imposition of martial law early in December. Indonesia, Australia, the Philippines and Thailand also fell sharply in part due to dollar strength and rising bond yields. Chinese equities declined and underperformed marginally, following some lacklustre economic data.
- Taiwan and Singapore were the only markets to produce positive returns. Taiwan again benefited from strength in its technology sector, especially stocks linked to AI.
- The fund produced a negative return over the period, ahead of the MSCI AC Pacific ex Japan index but behind the MSCI AC Pacific ex Japan High Dividend Yield (Net TR) index.

Drivers of fund performance

- In the equity portfolio, at the regional level, allocation had a positive effect, largely due to the overweight exposure to Singapore. Stock selection detracted, however, with the fund's holdings in Singapore weighing on performance.
- In terms of sectors, the underweight to consumer discretionary, and the overweights to information technology (IT) and financials proved to be beneficial. Selection had a negative impact, particularly in IT.
- While continuing to generate the enhanced income, the options were positive for performance during the quarter when measured in mark-to-market terms (+0.50%, reflecting expired options and those yet to expire).
- The effect was -0.58% in net cash terms (reflecting only

expired options) as eight tranches expired. A total of 281 option positions were sold across the three expiring tranches, of which 88 finished above their strike prices (requiring a settlement).

- **HKEX, DBS Group, Singapore Exchange, Ping An, UOB and OCBC Bank** 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

- Asian equities ended 2024 on a generally softer note, with most markets falling in the fourth quarter in response to shifting expectations for US monetary policy and disappointing follow-through on the policy front in China.
- Although Donald Trump's election victory triggered a rally in the US equity market, it also pushed the dollar and Treasury yields materially higher, and in turn, reduced expectations for interest-rate cuts through 2025. The new US administration is expected to enact fiscal and regulatory policies that will stimulate growth in the near term, and potentially put upward pressure on inflation. This has led to a tightening in US monetary conditions as we start the year. This shift in expectations has put pressure on Asian currencies and reduces the room for manoeuvre of regional central banks. Trump is also talking very forcefully about his intentions to hike import duties on goods from China and other markets, which could potentially be very disruptive to Asian exports over the medium term.
- The key issue for longer-term returns in China is whether any upcoming fiscal stimulus or other policy announcements are sufficient to really accelerate underlying economic growth, and thereby improve the earnings outlook. An improvement in domestic confidence – for both households and the corporate sector – is key to the growth outlook, while domestic policy support remains critical given the tough external backdrop. Market performance is therefore likely to be very policy dependent as we move into

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

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

2025. We remain underweight the China market, albeit partly offset by an overweight to Hong Kong.

- Korean and Taiwanese markets remain hostage to the performance of technology stocks, which dominate their indices. While AI-related revenue momentum looks very strong for many Asian technology stocks, the longer-term growth picture is less clear. Despite these near-term uncertainties, we remain comfortable with our positions in industry leaders in the technology sector.
- 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.
- We continue with our bottom-up investment approach and look for good companies where we can clearly see a strong income case and potential for capital growth.
- For the overlay, we continue to employ multiple overlapping option trades (overwriting around 9.5% 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, just over 60% of the NAV is overwritten, on

which we can capture upside up to the individual strike prices. Just under 40% 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
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.

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