Schroders

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Schroder ISF* Asian Dividend Maximiser

Fund Manager: Richard Sennitt and Structured Fund Management Team | Fund update: May 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 May.
- The fund was up, slightly lagging the MSCI AC Pacific ex Japan index, but slightly outperforming the MSCI AC Pacific ex Japan High Dividend Yield (Net TR) index.

Drivers of fund performance

- The underlying equity portfolio produced a positive return and broadly matched the MSCI AC Pacific ex Japan index (comparator index).
- At the regional level, stock selection had a negative effect. Despite positive returns in China, performance detracted notably in Singapore and Taiwan. However, allocation contributed positively, with the underweight to China adding value.
- In terms of sectors, selection detracted and was weakest in information technology, although returns in consumer discretionary were positive. The underweighting of consumer discretionary also proved to be beneficial.
- While continuing to generate the enhanced income, the options were negative for performance in May in mark-to-market terms, weighing -0.34% (reflecting expired options and those yet to expire).
- The options were also negative when measured in net cash terms (reflecting only expired options), weighing -0.15% as two tranches expired. A total of 70 option positions were sold across the two tranches, of which only 18 finished above their strike prices.
- **Singapore Telecom**, **BOC Hong Kong** and **HKT** were among the 'in-the-money' stocks. We had notional decisions in place on all of these. As such, while we had to make settlements for some of the potential upside, we were being cautious around these names and were able to capture a greater share of the increase than if the stocks were more fully overwritten.

Outlook/positioning

- The adverse reaction of the US dollar and bond markets to the initial tariff proposals is seen as a primary motivator for Donald Trump's recent moderation in tariff rates. Of course, the initial reciprocal tariffs have only been suspended for 90 days, rather than formally abandoned, and duties are still well above levels at the start of year. However, markets have moved to price-in a medium-term scenario in which tariffs remain close to current levels – i.e., still uncomfortably high and disruptive to trade flows, but unlikely to tip the US economy into a recession later this year.
- 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 exacerbate deflationary forces, China has more policy flexibility than many regional economies to help soften the blow. We remain underweight the China market, albeit partly offset by an overweight to Hong Kong.
- Among export-oriented stocks and within the technology sector, our focus remains on companies that demonstrate clear market leadership, product innovation and pricing power. These are the businesses that will likely have greater scope to pass on tariff costs, protect margins and sustain growth.
- Markets will closely monitor hard data to gauge whether recent uncertainty has inflicted any long-lasting damage on consumer spending or corporate investment that could trigger a slowdown in global growth in the second half of this year.
- Aggregate valuations for regional equities are slightly above longer-term average levels and are no longer pricing in much downside risk from a global downturn or serious tariff war.
- 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.

[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 financials, real estate 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.