

Schroder ISF* European Dividend Maximiser

Fund Managers: Nicholette MacDonald-Brown and Structured Fund Management Team |
Fund update: October 2021

Performance overview

- The fund seeks to provide an income of 7%¹ p.a. via a call option overlay and an actively managed European equity portfolio.
- European equities gained in October.
- The fund lagged the MSCI Europe, although performed in line with the Morningstar Europe Equity Income sector average.

Drivers of fund performance

- In the equity portfolio, some of our midcap holdings were weaker in the month. These included clothing retailer **About You**, **Software AG** and payments group **Network International**.
- About You reported strong trading and raised full-year revenue guidance. However, it is continuing an expansion into southern Europe and marketing spend on this will result in a negative impact on profit margins. We think the market underappreciates the group's potential for growth.
- Software AG upgraded EBIT margin guidance as the legacy business is not shrinking as fast as feared. However, the digital division had slower bookings growth than expected and it cut full-year guidance for this. Digital is clearly the future for Software AG and so the market took the news badly. Bookings can be volatile and we would caution against reading too much into one quarter's numbers.
- Also in the technology sector, **ASM International** made a positive contribution. The tools produced by semiconductor equipment groups are needed as firms look to expand their manufacturing capacity and re-shore supply chains.
- While continuing to deliver the required income enhancement, the options were negative for performance during October when measured in mark to market terms (detracting -0.29%, reflecting both expired trades and those with time still to expiry).
- Looking only at those options that reached their expiry date during the month, there was a positive contribution of +0.10% (in net cash terms) from three maturing option tranches.

- **ASM International**, **SEB** and **Nordea** were among the names that finished above their strike prices over these option terms, but having had notional decisions in place (reducing the amount overwritten), we captured a greater portion of the upside.

Portfolio activity

- A new holding is UK lender **Lloyds Banking Group**. We believe that it will benefit from rising domestic rates and positive momentum from a P&L perspective.

Outlook/positioning

- European shares have continued to push higher. The demand environment remains very buoyant but cost pressures are starting to be felt. We may in fact be at the peak in terms of costs, with some metals price rises now abating. However, we do think higher costs are here for the longer-term. Companies who can raise their prices without denting demand will be best placed.
- A small amount of inflation is generally good for equity markets, but prolonged higher inflation is generally negative. We could see an environment where relative valuations are what counts. Europe is relatively well-placed in this regard, and sectors such as banks could be winners whereas growth stocks may be more vulnerable. Careful stock selection will be needed.
- Within the overlay, we currently employ seven overlapping tranches (overwriting ~10% of the NAV in any single tranche). This creates regular expiries and hence regular opportunity to trade new options – meaning we can tailor the overlay as markets move, helping to smooth through shifts in share prices, volatility and dividend expectations.
- We remain very aware of spike risk, applying notional decisions on several names, including recent additions **About You**, **SUSE** and **Nordea**.

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

Calendar year performance (%)

Year	Fund	Comp 1	Comp 2
2020	-25.0	-3.3	-6.8
2019	16.2	26.0	21.8
2018	-5.1	-10.6	-11.7
2017	4.8	10.2	7.9
2016	2.9	2.6	0.4

Source: Schroders, as at 31 December 2020. Fund performance is net of fees, NAV to NAV with net income reinvested, EUR C Acc shares.

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.

Please see factsheet for other share classes. Comparator 1 is the MSCI Europe index; comparator 2 is Morningstar Europe Equity Income sector.

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.

Currency risk: The fund may lose value as a result of movements in foreign exchange rates.

Derivatives risk – Efficient Portfolio Management and Investment Purposes: Derivatives may be used to manage the portfolio efficiently. 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. The fund may also materially invest in derivatives including using short selling and leverage techniques with the aim of making a return. When the value of an asset changes, the value of a derivative based on that asset may change to a much greater extent. This may result in greater losses than investing in the underlying asset.

IBOR risk: The transition of the financial markets away from the use of interbank offered rates (IBORs) to alternative reference rates may impact the valuation of certain holdings and disrupt liquidity in certain instruments. This may impact the investment performance of the fund.

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. Therefore, the fund may underperform other funds that do not apply similar

criteria. The fund may invest in companies that do not reflect the beliefs and values of any particular investor.

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.

Maximiser funds: Derivatives 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 macroeconomic environment, investment objectives may become more difficult to achieve.

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.

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

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