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Schroder ISF* Asian Dividend Maximiser

Fund Manager: Richard Sennitt and Structured Fund Management Team | Fund update: October 2021

Performance overview

- The fund aims to deliver an income of 7%[1] p.a. via a call option overlay and an actively managed equity portfolio, investing in Asia-Pacific ex-Japan companies.
- Pacific ex Japan equities rose in October, in sterling terms, driven by positive earnings guidance and an ongoing decline in new Covid cases in many countries.
- In performance terms, the fund underperformed the comparator index.

Drivers of fund performance

- Stock selection was the key factor behind the fund's weaker relative returns.
- At the country level, selection was notably weak in China, while also detracting in Australia and South Korea. Underweight exposure to China was a negative factor.
- At the sector level, selection was weak in communication services, information technology and consumer discretionary, offsetting a positive performance from the fund's stocks in the materials sector. Underweight exposure to consumer discretionary also weighed on returns.
- While continuing to generate the enhanced income, the options had a positive effect on performance during the month. Three tranches expired during October, adding +0.21% in net cash terms. 115 option positions were sold across these three tranches, of which over 77% finished below their strike prices (requiring no settlement).
- **Telstra**, **Suncorp**, **National Australia Bank** and **UOB** were among the stocks that did finish above their strike prices; however, having applied notional decisions in these cases (reducing the amount on which we sold options), we were able to capture a greater share of the upside than would otherwise have been the case.

Outlook/positioning

- The continued uptick in inflationary pressures globally and some doubts about the sustainability of growth have resulted in a more negative, potentially 'stagflationary' outlook for economies.
- Chinese listed equities have confronted headwinds this year – notably the regulatory clampdown, the potential Evergrande default and a slowing economic recovery. Given the opacity of the authorities' decision-making process, only time will tell how radical a reworking of corporate China may be underway.
- Although initially regulatory announcements in China were focused mainly on the internet and education sectors, they have broadened out more recently. We continue to remain underweight China.
- There is still a lot of uncertainty as to where near term dividend payments will go given the path of Covid-19. Renewed outbreaks and relatively lower vaccination rates across much of Asia naturally warrant caution. All that said we still believe that, in most cases, this is more a matter of timing rather than these companies' ability to pay. In the medium to long term, dividends tend to follow earnings and we are starting to see earnings recover.
- In terms of portfolio strategy, we maintain a bottom-up investment approach and we continue to look for good companies where we can see a strong income case and potential for capital growth.
- In terms of the option strategy, we continue to employ multiple overlapping option trades (overwriting around 11% 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 and help to smooth through shifts in share prices, volatility and dividend expectations. At present, around 66% of the fund's NAV is overwritten with options, leaving around 34% to rise unconstrained.

[1] The gross yield is an estimate and is not guaranteed.
*Schroder International Selection Fund is referred to as Schroder ISF throughout.

Calendar year performance (%)

	Fund Net	Comparator
2020	10.2	23.0
2019	14.4	20.3
2018	-8.8	-14.5
2017	26.0	36.9
2016	8.5	7.5

Source: Schroders, net of fees, NAV to NAV, with net income reinvested. C Acc share class, as at 31 December 2020. The fund's performance should be assessed against the income target of 7% per year, and compared against the MSCI AC Asia Pacific ex Japan (Net TR) index.

The income target has been selected because the investment manager deploys strategies that aim to deliver the level of income stated in the investment objective. The comparator benchmark has been selected because the investment manager believes that the benchmark is a suitable comparison for performance purposes given the fund's investment objective and policy.

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.

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.
Emerging Markets & Frontier risk: Emerging markets, and especially frontier markets, generally carry greater political, legal, counterparty, operational and liquidity risk than developed markets.
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.
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 macro economic environment, investment objectives may become more difficult to achieve.
Stock Connect risk: The fund may be investing in China "A" shares via the Shanghai-Hong Kong Stock Connect and Shenzhen-Hong Kong Stock Connect which may involve clearing and settlement, regulatory, operational and counterparty risks.
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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