

# Schroder Income Maximiser Z Inc

November 2021  
Investment Research



## Overview

This is an equity income strategy where the income generated is boosted by the option strategy with the managers aiming to produce an annual yield of 7%.

Relative to the overall performance of the FTSE All Share index, this fund is likely to lag any strong upward trend. If markets trend sideways or turn down, this fund is likely to produce total returns which are modestly ahead of the performance of the FTSE All Share index. The actual relative performance of the fund will be heavily dependent on the actions of the fund manager. Over the longer term the managers aim to keep the capital value of the fund growing in line with inflation, though we stress that this is not assured.

Capital Accumulation	Capital Preservation	Income	Inflation Protection
●		●	

## Square Mile Expected Outcome

We believe delivering a yield of 7% per annum, with some potential for capital growth, is a reasonable expectation for this fund.

<b>Active/Passive:</b> Active	<b>Domicile:</b> United Kingdom
<b>Asset Class:</b> Equity	<b>IA Sector:</b> IA UK Equity Income
<b>Launch Date:</b> 04/11/2005	<b>Fund Size (as at 12 Nov 2021):</b> £734.0m
<b>Yield:</b> 6.78%	<b>Distribution Pay Date:</b> Mar 01, Jun 01, Sep 01 (Final), Dec 01
<b>Fund Manager:</b> Ghokulan Manickavasagar, Jeegar Jagani, Kevin Murphy, Mike Hodgson, Nick Kirrage, Scott Thomson	<b>Ongoing Charge Figure:</b> 0.91%
	<b>Transaction Cost ex Ante:</b> 0.11%



## Fund Opinion

This fund differs from the usual UK equity income proposition in that there are two parts to the investment strategy. The first element invests in UK shares which are offering a higher yield, and the second element involves selling call options on the shares within the underlying portfolio. Whilst it is true that this options overlay strategy is complex, the fund objective is simple - to produce a yield of 7%. The fund has more or less obtained this objective overtime. That being said whilst this strategy may be of interest to those investors requiring a higher yield on their investment, what one gains by receiving income in the present, may result in losing out on capital growth in the future. Moreover, over the very long term there is unlikely to be too much difference in the total return (i.e. the combination of income and capital growth) from a fund such as this and a more traditional equity income fund. Despite this, we believe that the underlying equity income strategy deployed by the fund's managers, Mr Kirrage and Mr Murphy, is a credible one that should outperform the FTSE All Share index over the long term.

Investors should note that the managers' contrarian approach does tend to be more volatile than other equity income strategies. The central tenet of their philosophy is that share prices move more than the changes in companies' fundamentals justify. When markets are low and falling, the managers are likely to be more aggressively positioned as they see such short term volatility as an opportunity. This may be painful in the short term, but these times may mark the periods when the strategy has the greatest opportunities ahead of it. The options overlay strategy should help to moderate the impact of this feature of the stock selection process.

## Fund Description

This is not a typical equity income fund. There are two elements to this fund. Firstly, the fund invests in a range of higher yielding UK shares to form a portfolio typical of traditional equity income funds. The second element involves selling call options on the shares in the portfolio. Through these options, the managers of the fund consents to sell the shares at an agreed price some time in the future (typically three months hence). In return, the fund receives an up front payment, referred to as the premium. In effect, the strategy involves selling the rights to some of the potential capital gains in exchange for guaranteed premiums today. The premiums are added to the dividend payments from the share portfolio and this produces an enhanced income to holders of the fund.

The equity portfolio is managed by the highly regarded Nick Kirrage and Kevin Murphy. The managers believe that markets tend to overreact in the short term and that opportunities are available to investors willing to take longer term views. The managers screen the market for stocks that have underperformed over the medium term and that have interesting valuation metrics. They then undertake a deep and fundamental assessment of the company with an aim to understand the reasons for the shares' underperformance and how this might be reversed. During this process they receive support from the well resourced UK equities desk at Schroders.

Once Mr Kirrage and Mr Murphy have constructed the portfolio, the next stage of the process is handled by Mike Hodgson who devises the options overlay strategy. Mr Hodgson is Head of Risk Managed Investments and Structuring at Schroders. The primary focus of the managers is to produce a 7% yield and this requirement determines the extent that options are employed. The options overlay involves selling a proportion of potential capital upside in exchange for income today and this proportion varies depending on market conditions. In general, high dividend yields on the underlying portfolio reduce the necessity to sell options and high levels of share price volatility increase the value of the options sold by the fund. During periods of market tranquillity and low dividend yields, a large proportion of the fund's potential upside may be required to be sold in order to generate the desired 7% yield. Conversely when markets are cheaper and more volatile, fewer options need to be sold.

## Risk Summary

This is an equity based fund typically investing in UK listed companies. The fund is exposed to moves in the UK stock market, which can exhibit significant volatility.

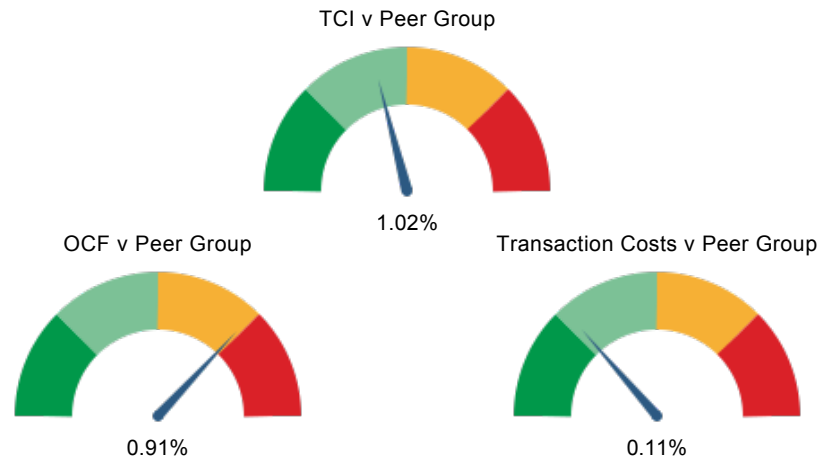
Although the option writing strategy limits the potential capital gains on the fund, it does not limit potential capital losses. The higher income generated by the strategy will help to offset any capital loss, thereby reducing any loss measured on a total return (the combination of capital and income) basis. Investors should also note that significant falls in capital value may reduce the level of income generated by the fund.

Furthermore, the investment process used to manage the underlying equity portfolio seeks to invest in situations that are out of favour with the market and this could bring higher levels of risk than the FTSE All Share index and a number of peers. However, these stocks also have the potential to produce high returns over time, therefore this strategy may be more suitable for investors with a longer time horizon.

## Value for Money

Although the fund's ongoing charge figure (OCF) is slightly elevated when compared to its peer group, its transaction costs are low relative to the competition. Given the nature of this strategy and the underlying instruments it uses to achieve its objective, we feel that it is appropriately priced and therefore represents good value for money.

In line with the MiFID II regulations, asset management firms are required to disclose all of the costs and charges related to the running and administration of their funds, including items outside of the OCF, such as research costs. As a result, Schroders has absorbed the costs associated with its research, which slightly reduces the overall fee paid by investors.



## ESG Integration

<b>Company Assessment</b>	0	1	2+	3
Demonstrable steps are being taken to fully integrate ESG factors into all of the company's investment processes.				
<b>UN PRI Strategy &amp; Governance Rating</b>	A+			
<b>Fund Assessment</b>	0	1	2	3
ESG factors are actively considered by the fund's manager as an important part of the investment process, but do not drive the final investment decision.				

## Responsible Investing Approach

Exclusion	Responsible Practices	Sustainability	Impact
<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>

## Additional Information

<b>Annualised Return</b>	1.49%
<b>Annualised Volatility</b>	19.43%
<b>Max Drawdown</b>	-34.79%
<b>Max Gain</b>	23.73%
<b>Max Loss</b>	-30.25%
<b>Sharpe Ratio</b>	0.02
<b>Sortino Ratio</b>	0.02

(3 years data to last month end unless otherwise stated)

## Currency of Share Class

GBP

## Fund Price (as at 12 Nov 2021)

45.0 pence

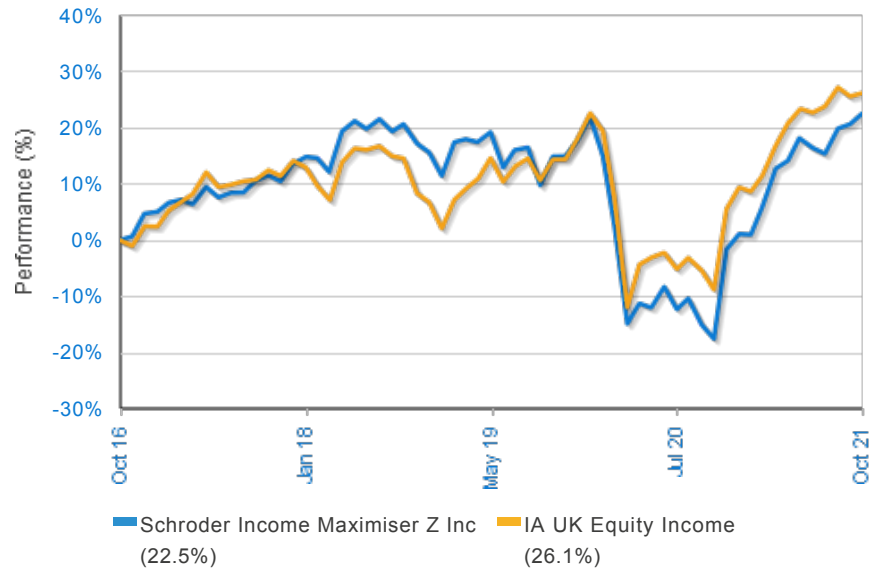
## Benchmark

FTSE All Share

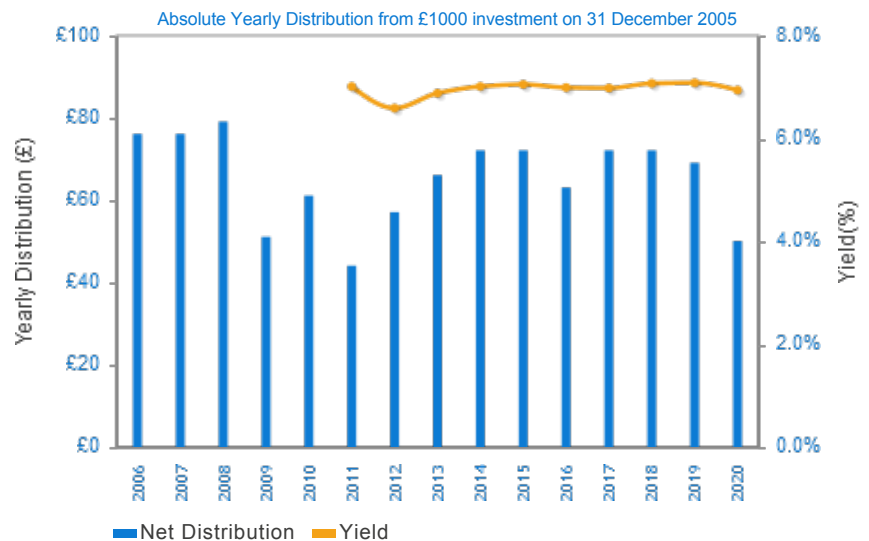
## Discrete Annual Performance to Last Quarter End

Period	Fund (%)	Sector (%)	Quartile Ranking
0-12m	42.0	32.7	1
12-24m	-26.0	-17.2	4
24-36m	-4.8	-0.2	4
36-48m	9.1	3.4	1
48-60m	14.1	10.6	1

## Capital Growth

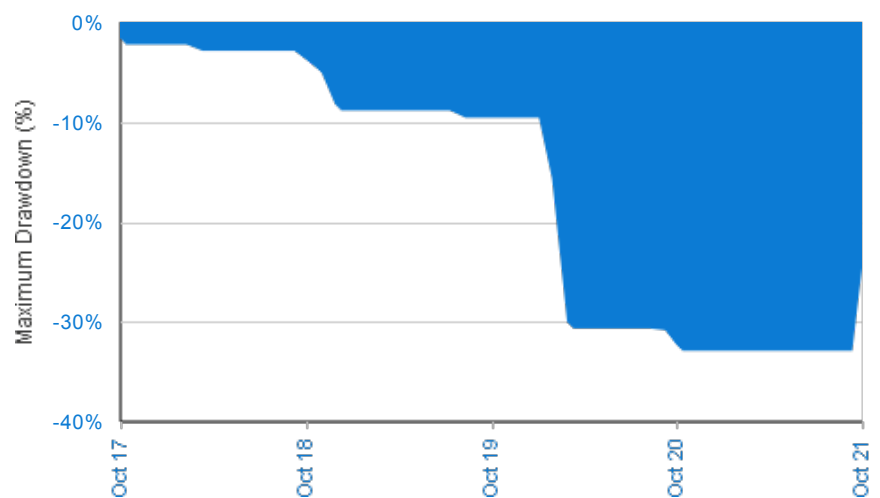


## Income



This graph assumes that income is distributed to shareholders and not reinvested. Yield represents share price fluctuations.

## Maximum Drawdown (Rolling 12 Months)



## Top Ten Holdings

(Data as at 30 Sep 2021)

Company Name	%
ROYAL DUTCH SHELL PLC	5.0
ENI	4.8
BP	4.3
IMPERIAL BRANDS PLC	4.2
AVIVA	4.1
MARKS & SPENCER GROUP	4.1
GLAXOSMITHKLINE	4.0
SAINSBURY(J)	3.9
MORRISON(WM.)SUPERMARKETS	3.8
SOUTH32 LTD	3.8

## Sector Breakdown

(Data as at 30 Sep 2021)



- Financials (27%)
- Consumer Staples (15%)
- Energy (14%)
- Consumer Discretionary (10%)
- Health Care (9%)
- Basic Materials (9%)
- Telecommunications (5%)
- Industrials (4%)
- Technology (4%)
- Other (5.3%)

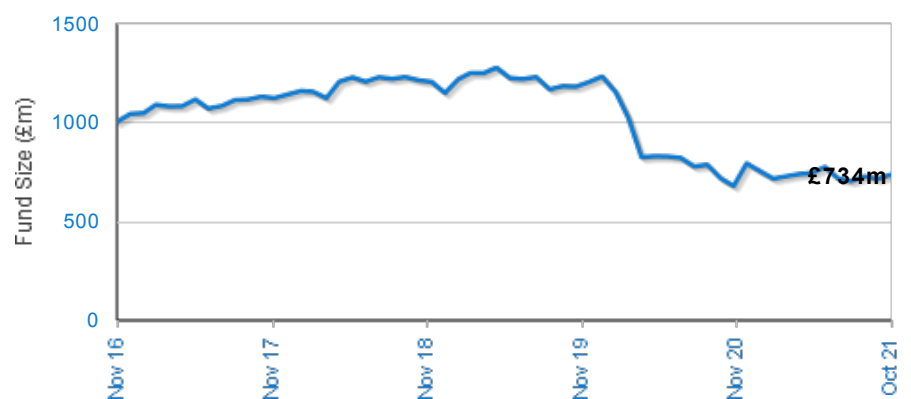
## Geographic Breakdown

(Data as at 30 Sep 2021)



- UK (72%)
- USA (8%)
- Australia (5%)
- Netherlands (5%)
- Italy (5%)
- South Africa (3%)
- France (1%)
- Money Market (0%)

## Assets Under Management



## Qualitative Risk Assessment

	Significant	Potentially Significant	Not Significant
Equity Risk	●		
Interest Rate Risk		●	
Credit Risk			●
Exchange Rate Risk			●
Liquidity Risk			●
Emerging Markets Risk			●
Derivative Risk		●	
Manager Risk	●		

### Equity Risk

The fund is predominately invested in shares. Shares are volatile investments and this volatility is typically heightened at times of economic stress.

### Interest Rate Risk

The fund is an equity fund. Higher interest rates may adversely affect valuations of shares.

### Credit Risk

This fund does not have significant exposure to corporate debt.

### Exchange Rate Risk

The fund is predominantly invested in domestic assets.

### Liquidity Risk

The fund invests in liquid assets and any sale should be possible at close to the prevailing market price.

### Emerging Markets Risk

The fund predominantly invests in securities listed by organisations operating in developed markets.

### Derivative Risk

The fund employs derivatives as part of its investment strategy. Derivatives are complex instruments and may not behave as the manager intends. Additionally, the use of derivatives may increase counterparty risk.

### Manager Risk

The managers are seen as a critical element in Square Mile's rating of the fund, so Square Mile is likely to downgrade the fund if the managers were to leave.

FE Risk Rating: 101.00

SRRI: 6

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