

Schroder US Equity Income Maximiser

North America

Introduction

Schroder US Equity Income Maximiser aims to provide an income by investing in equity and equity related securities of large US companies. The fund is structured – using covered call options – with a view to delivering an income of 5% per annum.

[Click here to read the Schroder approach to ESG investing.](#)



Why RSMR Rate this Fund

- Schroder have established a significant presence in the covered call option market which makes them a market leader in this field.
- Schroders Structure Fund team, who have ultimate responsibility for the fund are one of the strongest in the UK.
- The underlying portfolio is a passively managed portfolio seeking to replicate the performance of US large cap stocks and consequently it has no predetermined style bias.
- In a low interest rate / low yield environment, this fund has a role to play in income producing portfolios.

Fund Process

As with the other Schroder Income Maximisers, the fund operates a covered call strategy with a view to enhancing income. The underlying portfolio on this fund is managed with the objective of having a minimal tracking error relative to the US large cap market. The portfolio is not an S&P500 tracker but seeks to have the same characteristics as the index by investing in an optimised portfolio of around 300 stocks. The portfolio itself will generate between 1 and 2 percentage points per annum to the income target with the premium from selling covered call options adding a further 4 percentage points. The covered call strategy enables them to own some tech stocks which do not pay dividends, giving them an advantage over traditional US equity income funds. Schroder utilise Barra One which has built-in optimisation tools to enable the construction of the portfolio subject to defined constraints. ESG considerations are not reflected in portfolio construction although Schroders' dedicated Sustainable Investment team does carry out active engagement and they use their shareholder voting rights when appropriate.

They only ever write options on stocks that are owned within the portfolio. No leverage is employed. In other words, if there is a need to pay out on an option (because the share price has risen above the strike price), it can be taken from the gain made from owning the stock. The Maximiser strategy also uses multiple, overlapping option trades as a means of risk mitigation. Splitting up the option trading in this way introduces the benefits of averaging – spreading the potential outcomes by creating multiple trade and expiry dates for the options – and keeps each trade small, so the exposure of the options positions to share price movements on any one particular trade or expiry date is significantly reduced by this process.

Evaluation

The fund's investment strategy will typically underperform a similar portfolio of equities without a derivative overlay in periods when the underlying equity prices are rising and has the potential to outperform when the underlying equity prices are falling.

Application

This is a core holding for an income portfolio which has a blended geographic exposure to equities. It could be particularly useful in the pensions /retirement market in drawdown situations.

Our Opinion

The Schroder Maximiser range of funds (which cover several geographies and include a managed option), provide investors with an attractive and proven strategy (over several market cycles), to generate an income in what has been a challenging environment for income producing portfolios in this era of low interest rates. The covered call overlay is key and Schroder is one of the biggest players with a high degree of expertise in this field.

Important Notice

This document is aimed at Investment Professionals only and should not be relied upon by Private Investors. Our comments and opinion are intended as general information only and do not constitute advice or recommendation. Information is sourced directly from fund managers and websites. Therefore, this information is as current as is available at the time of production.

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