



“The Inescapable Income Truths”

Delivering income in a low yield world

Rupert Rucker, Head Of Income Solutions
January 2019

For professional investors and advisers only. Not for retail clients

Learning Objectives

At the end of this presentation, you will have an understanding of:



Inescapable Investment “Truths” for the next decade

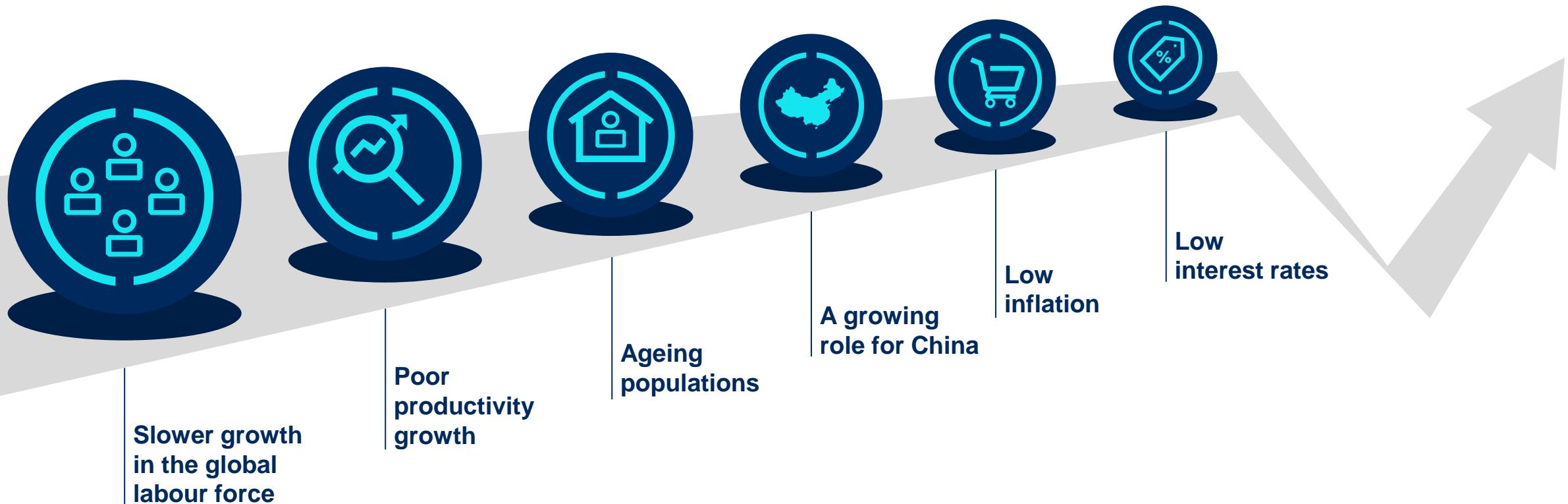
How to enhance equity income

A solution to reduce equity volatility

Inescapable Investment Truths

A Forecasted Slowing Global Economy over the next decade

The world will be different



Source : Schroders



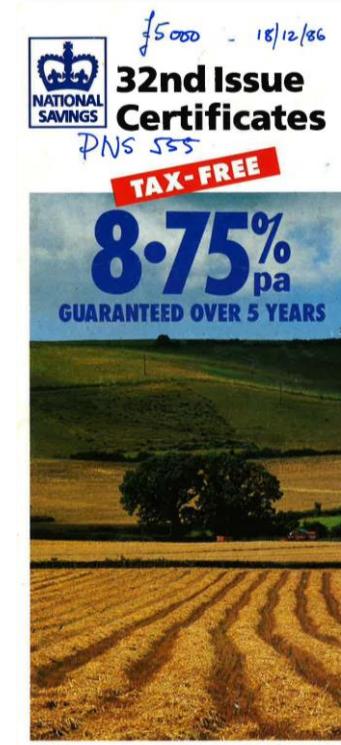
- | | |
|------------|----------------------------|
| 87% | want at least
4% income |
| 54% | looking for
6% or more |
| 41% | seek
at least 8% |

Source: Schroders, Global Investment Trends Survey, May 2016.

● The Past

3.4% | UK Inflation
in 1986

UK National Savings Certificate
Issued in 1986



Source: Rupert Rucker's Father
This image is for illustrative purposes only.

The Past

The Present



Online Savings Account

- ④ Start saving with £1
- ④ No fees or charges
- ④ **1.50% AER* (variable)**

Includes a bonus rate of 0.15% gross[†] fixed for the first 12 months

Marcus:
BY GOLDMAN SACHS®

Source: Goldman Sachs
This image is for illustrative purposes only

We expect risk-free real rates to remain at 1900–1980
average = 1% to 3% below pre-crisis levels

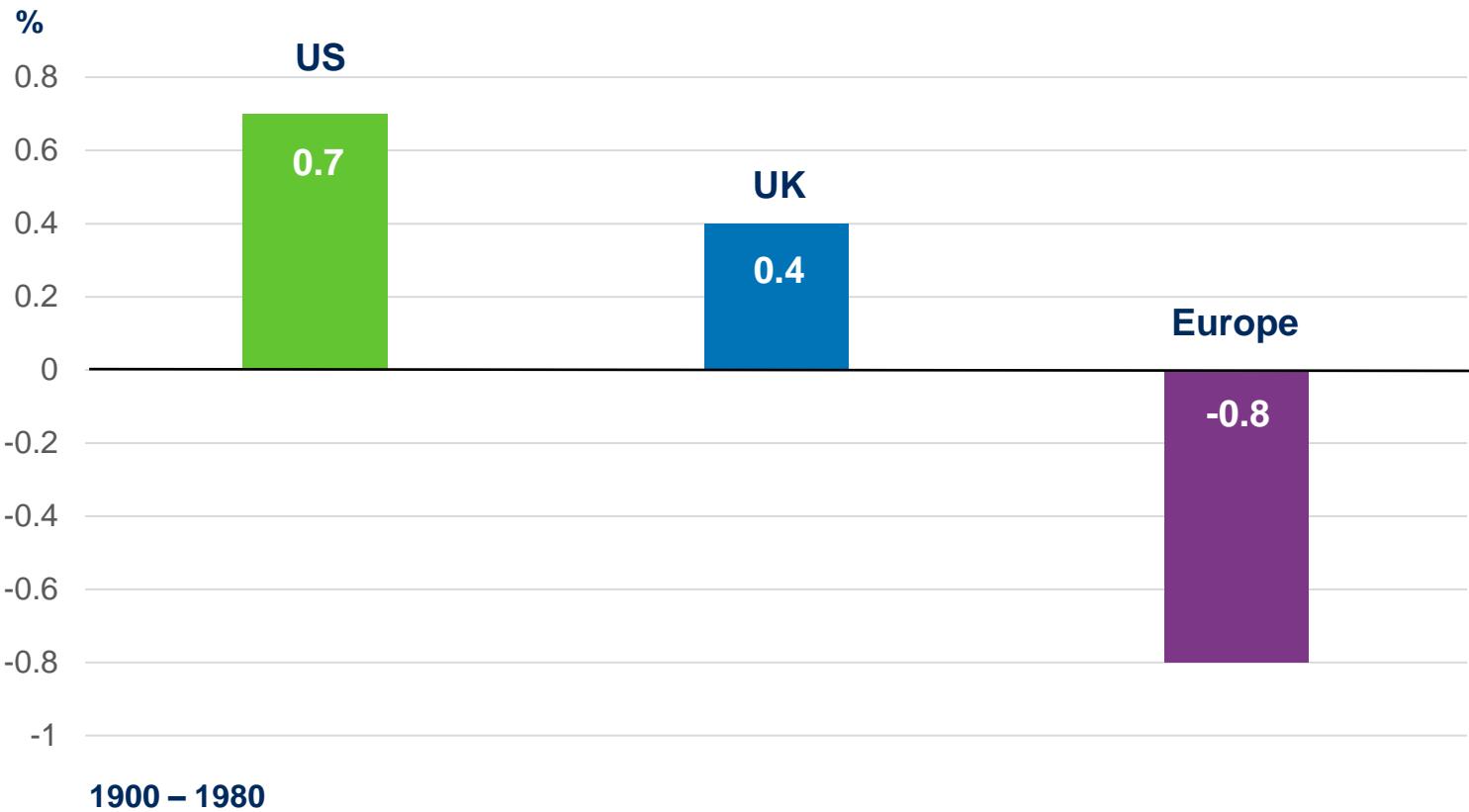
The Past

The Present

The Future



Real interest rates will remain low?



Source: Schroders, Dimson, Marsh & Staunton, Credit Suisse Global Investment returns Yearbook 2018.

The Past

The Present

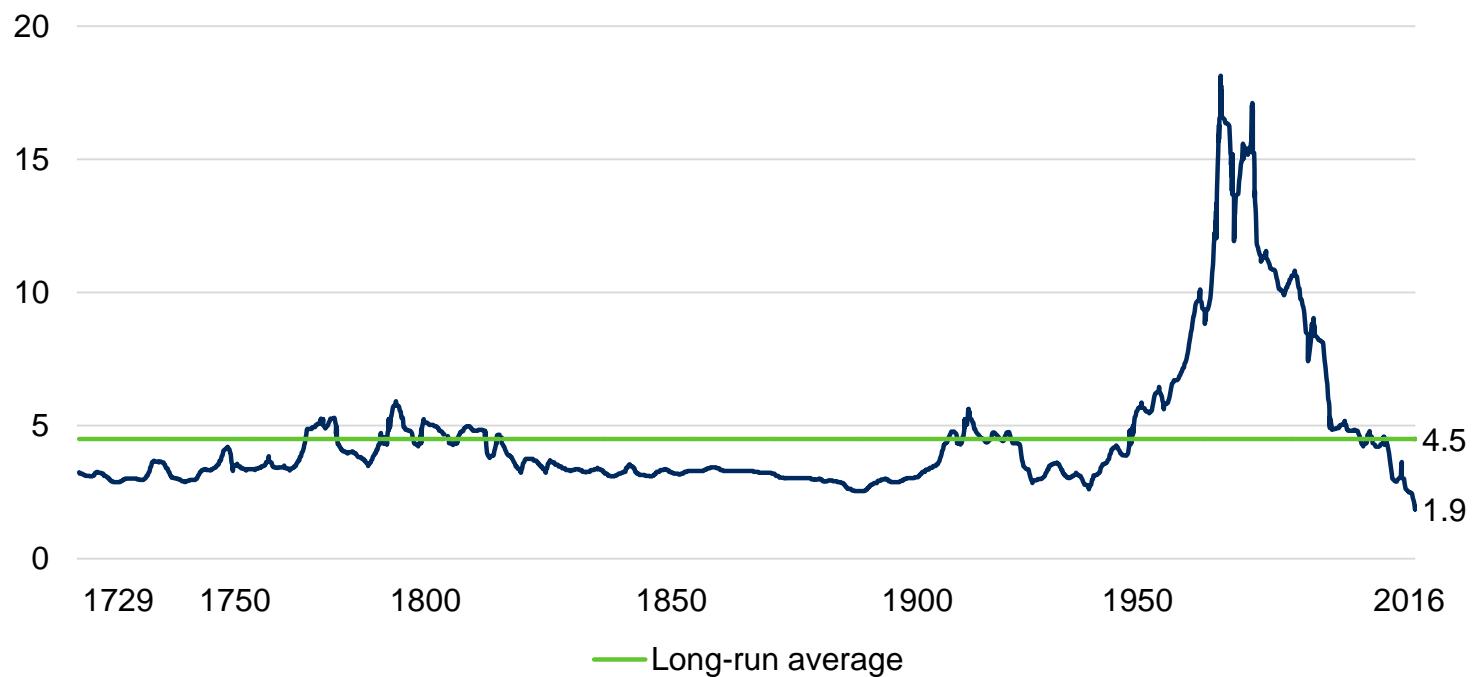
The Future

What Yield Is ‘Normal’?



What yield is ‘normal’?

300 years of UK bond yields.



Source: Elroy Dimson, Paul Marsh, and Mike Staunton, *Triumph of the Optimists*, Princeton University Press, 2002, and subsequent research.

A typical investor's wish list

For an attractive income solution

“I need income”

Sufficient

Regular

Drawdowns

Some inflation-proofing

Transfer value

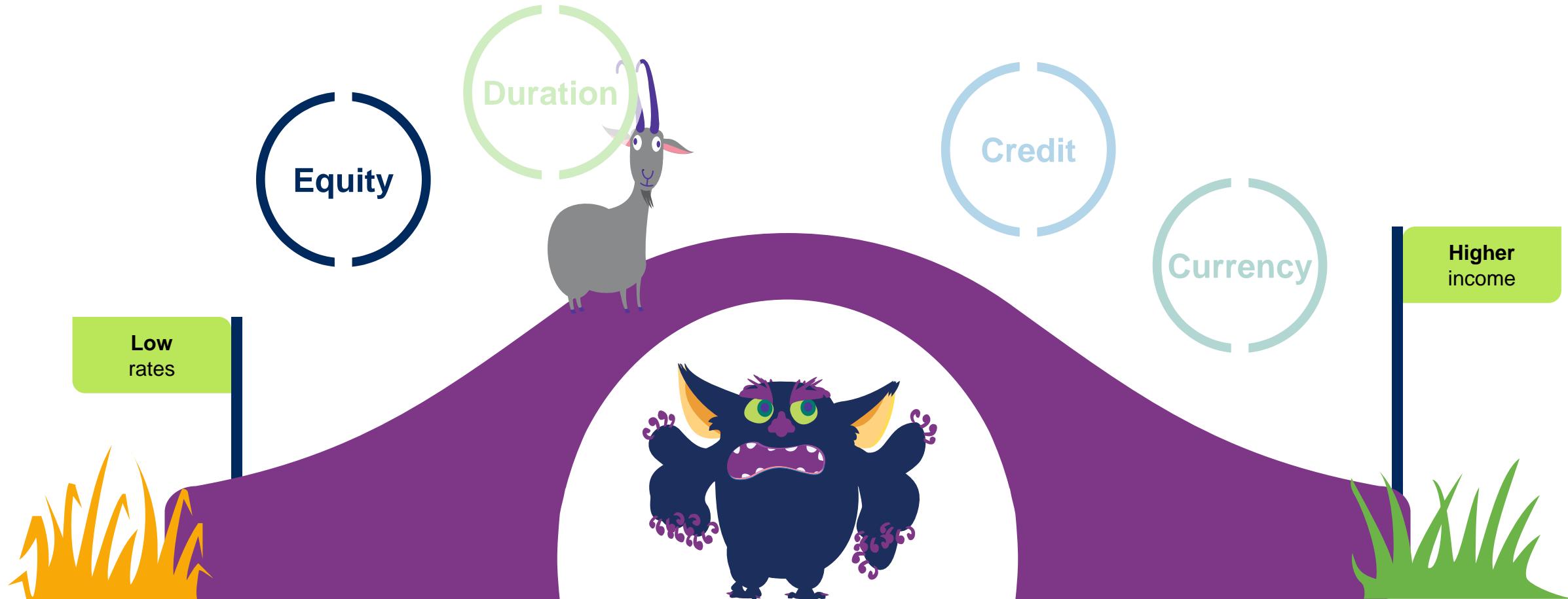
“...but what about...”

Low interest rates

Negative bond yields

Volatile equities

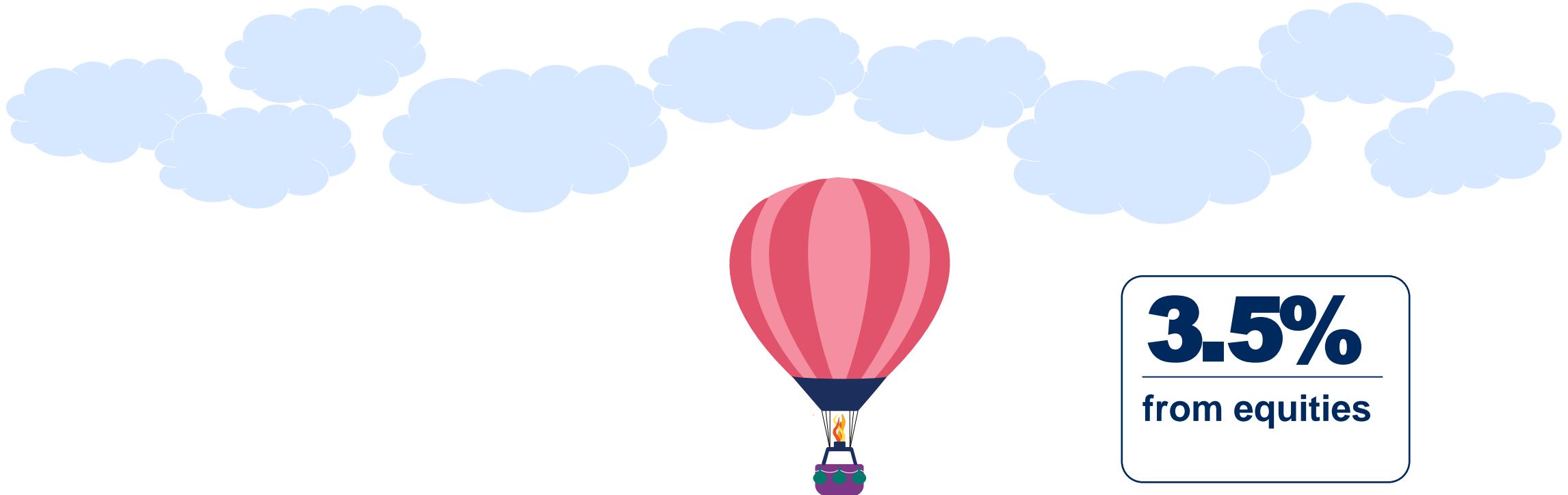
The dilemma for those seeking higher income



Source: Three Billy Goats Gruff

Barrier

Must break through the natural equity income barrier



Equity income is dependable and not interest rate sensitive

Source: Schroders. ¹The target yields quoted are estimates and are not guaranteed. Figures are internal guidelines only and are subject to change. Only some upside is sold in order to preserve the potential for capital growth over the option term.

Two sources of yield not linked to low interest rate policy



Source: Schroders. ¹The target yields quoted are estimates and are not guaranteed. ²Figures are internal guidelines only and are subject to change. ³Only some upside is sold in order to preserve the potential for capital growth over the option term.

Why Value investing for income ?

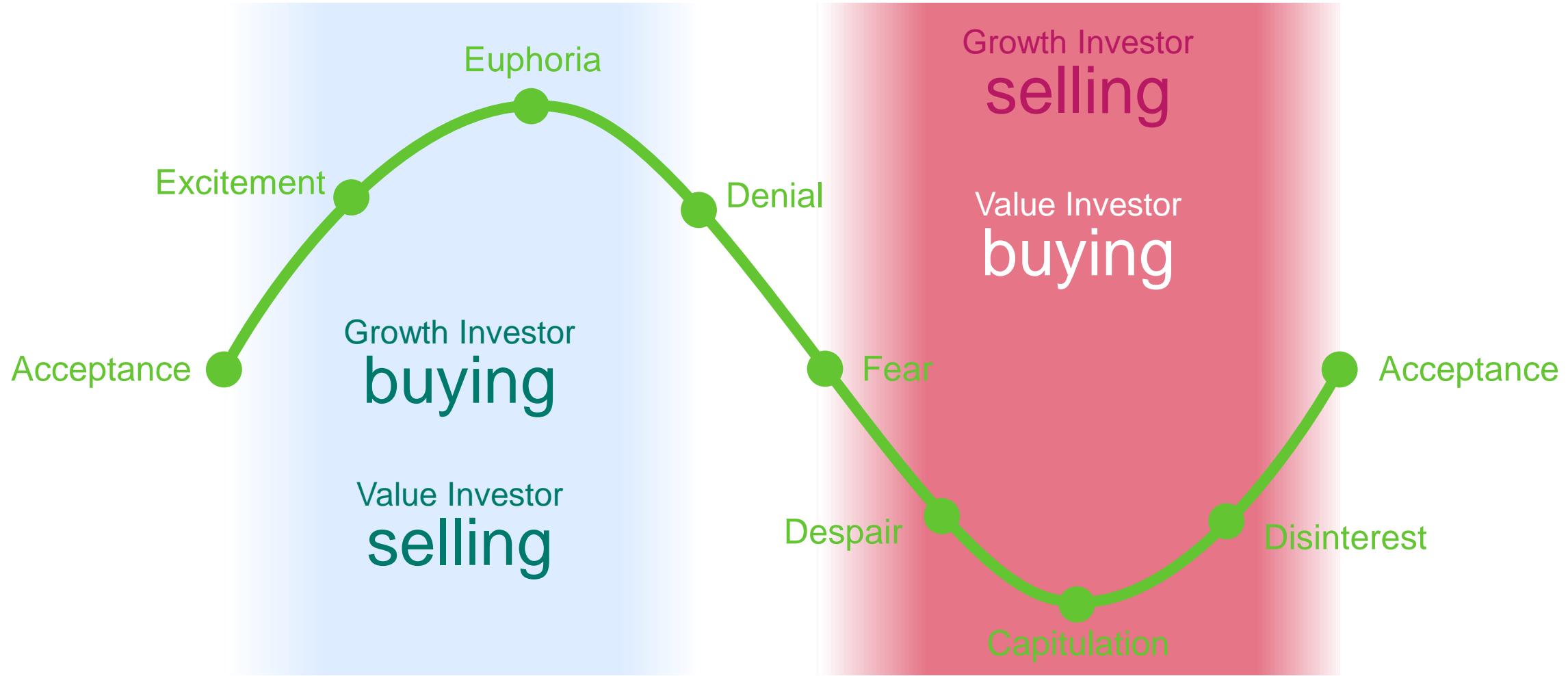
Psychology of the investor

Step 1



Psychology of the investor

Step 1



Growth of gold

Selling Call Options – the trade-off

Exchanging some uncertain potential gain for a regular income

Step ②

Initial equity value



Stock price on option trade date

Strike price ➤

For illustrative purposes only.

Source: Schroders. ¹Only some upside is sold, in order to preserve the potential for capital growth over the option term.

The auction process

Step ②

Example: Auction conducted 8 February 2018 for Schroder ISF Global Dividend Maximiser

Stock	Highest Strike	Price on expiry (08/05/18)	Option premium
GAP	118.11%	92.14%	2.00%
ageas	104.36%	110.16%	1.60%
SANOFI	101.36%	101.26%	Not traded

Generating the required income, while seeking to maximise the strike price¹

Source: Schroders, 31 May 2018.

¹The fund intends to make regular yield payments to investors and, if its total return is not sufficient to cover these payments, these payments may reduce the fund's capital. For illustrative purposes only. References to companies should not be considered a recommendation to buy and/or sell shares.

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“...but what about...”

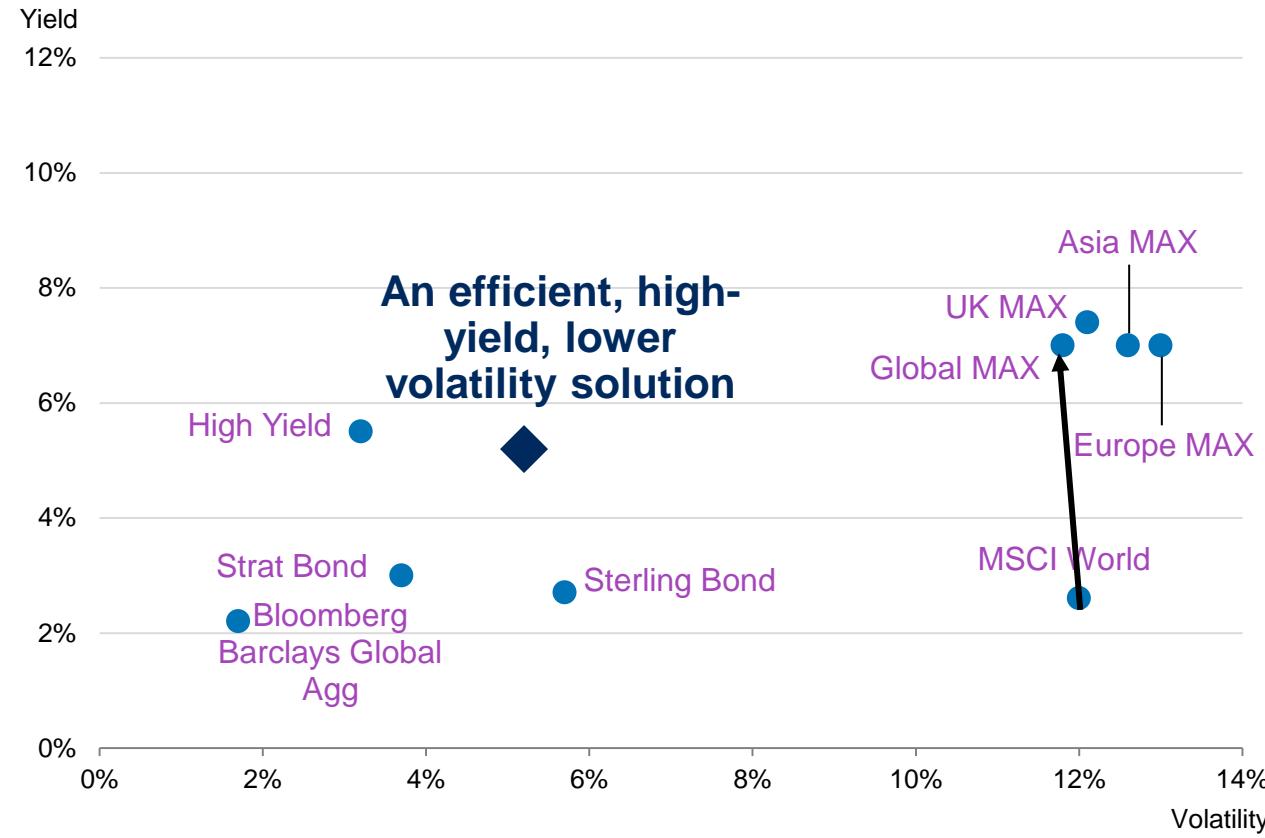
Low interest rates

Negative bond yields

Volatile equities

Combine Maximiser with bonds, instead of cash

Yield vs. volatility



Combining Maximiser funds with bond funds:

- ① Boosts yield potential
- ② Increases diversification
- ③ Lowers volatility

Source: Schroders: average 12 month rolling Vol, 12 month coupon for bond funds, Maximiser funds 1 year fixed payout. December 2018

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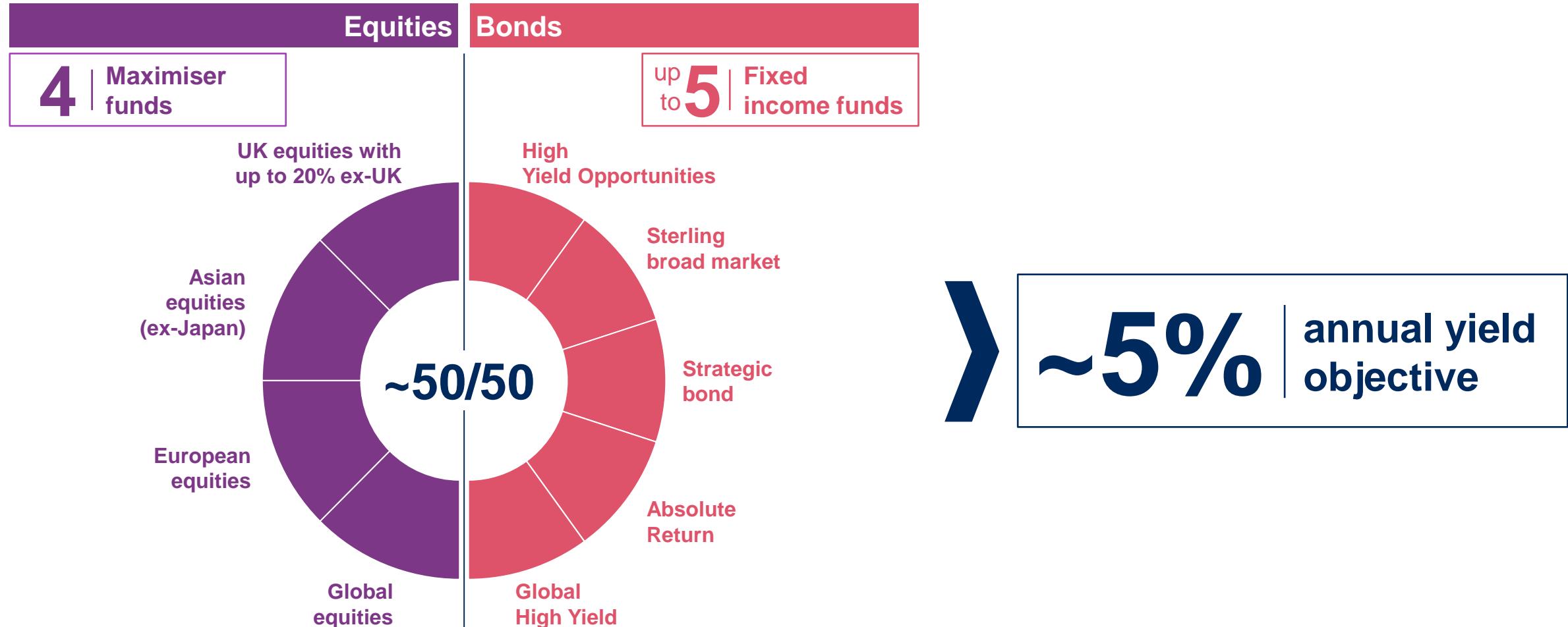
How to enhance equity income



A solution to reduce equity volatility

Schroder Mixed Distribution Fund

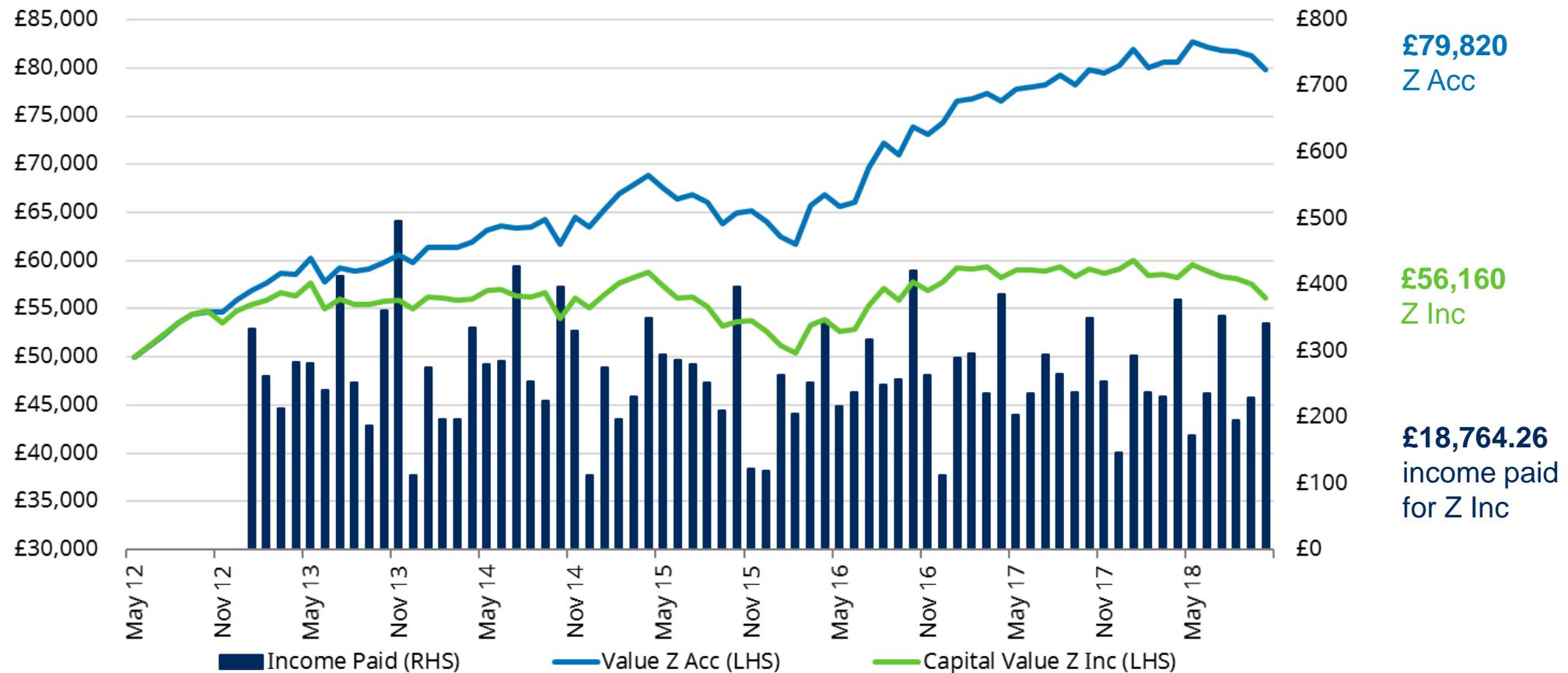
Overview



Source : Schroders. For illustrative purposes only. This is not the current asset allocation. Objectives cannot be guaranteed and are subject to change.

Schroders Mixed Distribution Fund

Income paid on £50,000 invested at launch*



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 amounts originally invested.

Source: Schroders, as at 23 October 2018. *Fund launched 21 May 2012 at 50p per unit; Z Inc share class distributions began in 2013. Unit price lines plotted to correspond to XD dates. Latest two distributions subject to administrator confirmation.

Source: Schroders, bid to bid, net income reinvested in GBP, for the Z Acc share class, net of fees. *Fund launch date 21 May 2012.

Schroder Mixed Distribution Fund

Performance since launch

Periods ending 31 October 2018

	3 months	1 year	3 years	5 years	Since launch*
Schroder Mixed Distribution Fund Z Acc	-3.3%	-0.4%	21.7%	31.8%	59.8%
IA Mixed Investment 20%-60% Shares	-3.4%	-1.9%	15.3%	22.0%	43.5%
Relative performance	+0.1%	+1.5%	+6.4%	+9.8%	+16.3%

Calendar year performance

	2017	2016	2015	2014	2013
Schroder Mixed Distribution Fund Z Acc	7.9%	15.0%	0.5%	6.9%	8.1%
IA Mixed Investment 20%-60% Shares	7.2%	10.4%	1.3%	4.8%	8.9%
Relative performance	+0.7%	+4.6%	-0.8%	+2.1%	-0.9%



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Source: Schroders, bid to bid, net income reinvested in GBP, for the Z Acc share class, net of fees. *Fund launch date 21 May 2012

Source for ratings: Trustnet, Morningstar, Defaqto, Distribution Technology, Synaptic, all as at 30 September 2018. Please see Morningstar disclaimer at the end of the presentation.

Schroder Mixed Distribution Fund

Risk Considerations

As a result of fees being charged to capital, the distributable income of the fund may be higher but there is the potential that performance or capital value may be eroded.

The fund can be exposed to different currencies. Changes in foreign exchange rates could create losses.

High yield bonds (normally lower rated or unrated) generally carry greater market, credit and liquidity risk.

A rise in interest rates generally causes bond prices to fall.

A decline in the financial health of an issuer could cause the value of its bonds to fall or become worthless.

A failure of a deposit institution or an issuer of a money market instrument could create losses.

Equity prices fluctuate daily, based on many factors including general, economic, industry or company news.

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.

Failures at service providers could lead to disruptions of fund operations or losses.

The counterparty to a derivative or other contractual agreement or synthetic financial product could become unable to honour its commitments to the fund, potentially creating a partial or total loss for the fund.

A derivative may not perform as expected, and may create losses greater than the cost of the derivative.

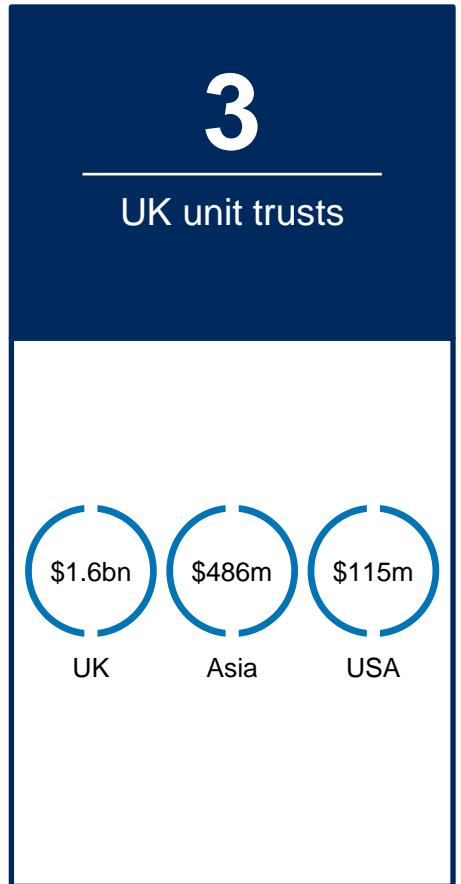
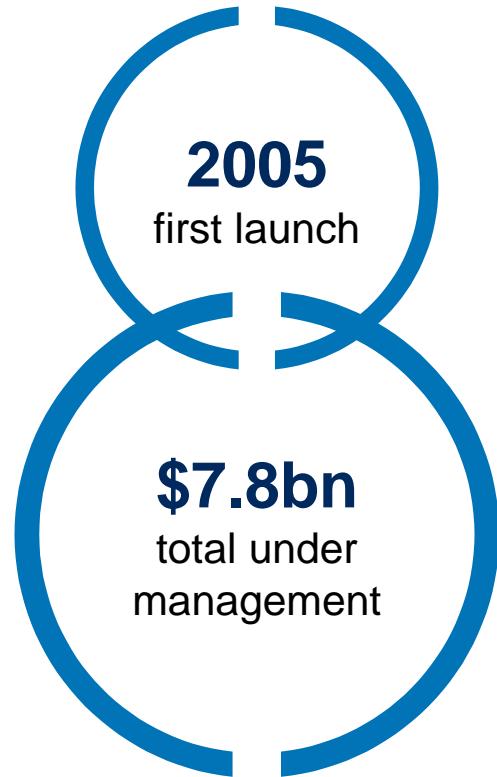
When interest rates are very low or negative, the fund's yield may be zero or negative, and you may not get back all of your investment.

Because the fund intends to pay dividends regardless of its performance, a dividend may represent a return of part of your investment.

The fund uses derivatives for leverage, which makes it more sensitive to certain market or interest rate movements and may cause above-average volatility and risk of loss.

Schroders' Maximiser range

Large AUM, advantages of scale; more than 12 years and an equity market cycle



Five different regional choices; one fund-of-funds offering a combination

Source: Schroders, assets under management as at 31 August 2018.

Our strategic capabilities



Alpha Equity



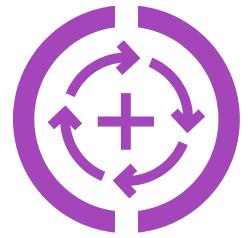
Credit



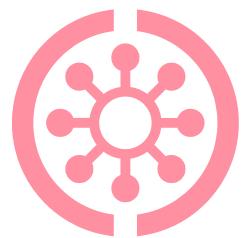
Emerging Markets



Income



Liquid Alternatives



Multi-Asset Solutions



Private Assets



Retirement



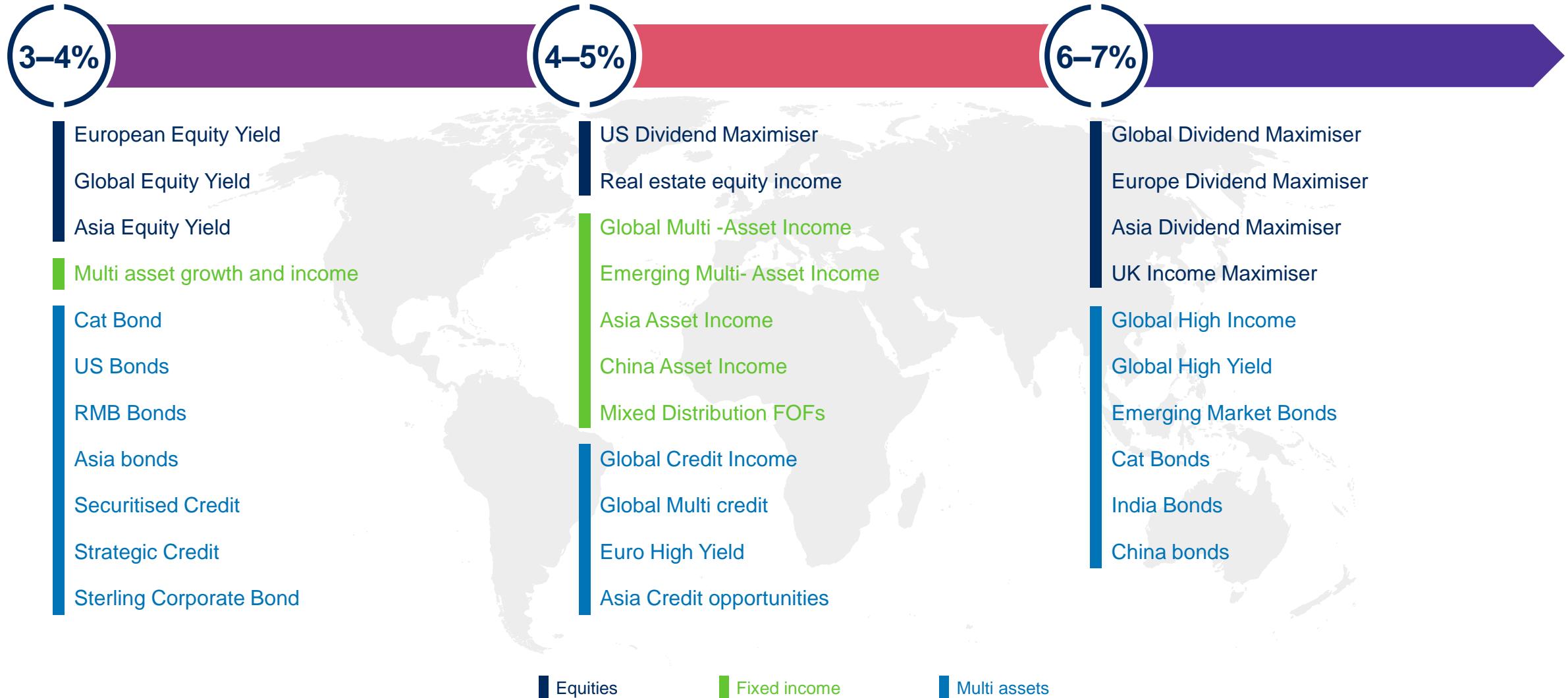
Solutions



Sustainability

Income targets not asset classes

Different Journeys and risks



Income targets cannot be guaranteed.

Important Information

For professional investors and advisers only.

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Schroder ISF Global Dividend Maximiser Fund:

This document does not constitute an offer to anyone, or a solicitation by anyone, to subscribe for shares of Schroder International Selection Fund (the "Company"). Nothing in this document should be construed as advice and is therefore not a recommendation to buy or sell shares. Subscriptions for shares of the Company can only be made on the basis of its latest Key Investor Information Document and prospectus, together with the latest audited annual report (and subsequent unaudited semi-annual report, if published), copies of which can be obtained, free of charge, from Schroder Investment Management (Europe) S.A.

Risk considerations:

The capital is not guaranteed.

The fund intends to make regular yield payments to investors and, if its total return is not sufficient to cover these payments, these payments may reduce the fund's capital.

Investments denominated in a currency other than that of the share-class may not be hedged. The market movements between those currencies will impact the share-class.

The fund will not hedge its market risk in a down cycle. The value of the fund will move similarly to the markets.

The derivative strategy is applied repeatedly. This strategy will increase the income paid to investors and reduce the volatility of returns, but there is the potential the performance or capital value may be eroded.

The fund makes use of financial derivative instruments. It is expected that the strategy will typically underperform a similar portfolio with no derivative overlay in periods when the underlying stock prices are rising, and outperform when the underlying stock prices are falling, thereby reducing the volatility of returns.

Important Information

Schroder Mixed Distribution Fund: Subscriptions for fund units can only be made on the basis of its latest Key Investor Information Document and Prospectus, together with the latest audited annual report (and subsequent unaudited semi-annual report, if published), copies are available in English and can be obtained, free of charge, from Schroder Unit Trusts Limited.

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