LWM Consultants Ltd

Meeting the Fund Manager

Fund manager meeting – Schroder Maximiser Funds

Across our portfolios we invest in the Schroder Income Maximiser, Property Income Maximiser and Asian Income Maximiser. The underlying strategy is managed by Thomas See. I have been fortunate to meet Thomas in the past when he launched the Asian Income Maximiser but being able to meet on a one to one basis provided the opportunity to understand more about the underlying strategy behind all these funds.

Investment objective and profile

The funds look to invest in an actively managed equity portfolio to provide upside growth potential but at the same time provide enhanced yield by selling some of the potential upside. The property income Maximiser will look to invest in real estate investment trusts, equity and equity related securities and debt securities of property companies worldwide.

Themes and investments

One of the parts of the strategy I have struggled with is how does the strategy work. Effectively what Thomas does is sell the potential upside growth. So for example if the share price is £1.00, Thomas may sell any upside growth above £1.05 in the market. So for example a third party will pay for growth up to £1.20.

In effect Thomas receives 15p in advance which can then be banked to provide the enhanced income. The fund also holds back 5p for growth. If the growth is below £1.20 a share then there is no "loss" to the fund, effectively the fund has gained. If the price goes over £1.20 then any price above that is paid to the institution who has hedged that payment. So effectively the fund gives up that growth element.

So effectively you are getting payment in advance for the growth which in turn is used to enhance the yield. Each trade lasts for three months and each trade is staggered so effectively the trades don't all mature at the same time. They only trade on stocks held by the fund and there is no leverage employed.

The strategy responds well in volatile markets as it can give an element of protection by selling upside. It also responds well to cheap markets. We looked at where the market is sitting compared to ten years ago. The average PE ratio ten years ago was around 21, now it is in the 10-15 range. This is interesting not only for the fund but also generally where investors can discover opportunities in this market if they are prepared to hold their ground and invest for the long term.

We talked about what is happening now, over the last three years the markets have suffered extreme volatility. There is a fear factor as if this is something that has not happened before. In 2008 it was felt it was the end of the world, the global market survived this and likewise if the Euro breaks down the world will survive. Going back to 1870 we can see periods of extreme volatility. For example in 1974 the markets fell between 20 and 30%, in 1975 they rose between 30 and 40%. In 1931 the markets fell between 40 and 50%, in 1933 they rose by between 50 and 60%. The key for fund managers is how you respond to this.

Finally we discussed with Thomas how he has to work the fund to get the target yield of 7%, clearly in the UK more of the upside is sold as yields are harder to achieve whereas in Asia only around 60% of the portfolio is currently invested in the strategy. The key is that the funds work well because they offer equity type returns with bond like volatility and yields. It takes no risks from leverage and only sells what they have. The risk is the giving up of long term upside for yield but this is why the fund sits well with the Defensive and Cautious Portfolios.

Conclusion

We have always been impressed by Schroders and in particular the Maximiser range of funds. Thomas has honed his skills over a number of years and this clearly shows in the management of the funds. For this reason we will continue to use these funds within the portfolios we manage.