Schroders

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Schroder ISF* Global Cities

Fund Managers: Tom Walker & Hugo Machin | Fund update: October 2022

Portfolio & market review

A weak month for the fund due to both macro and micro factors.

From a macro perspective, inflation continued to demonstrate it is more entrenched in the economy and led to increased concerns regarding the pace of future rate hikes.

From a micro perspective, the majority of (US) companies reported their third quarter earnings during the month, management commentary was not as positive as the prior quarter.

Data demonstrated that the storage sector has started to see a reduction in the growth of 'move in' rate, alongside higher expenses.

Conversely, the retail sector experienced growing occupancy and improving re-leasing spreads.

Similar to storage, the apartment sector saw a reduction in rental growth but reported strong retention and pricing power with existing tenants.

The office sector continues to battle reductions in demand due to working from home, in addition it is clear that large tech firms are no longer looking to expand their physical footprints.

Our research over the final quarter will focus on whether changes in management commentary are due to normal seasonality or the beginning of a recession led slow down.

Portfolio activity

Keppel DC – new addition to the portfolio, attractive entry point in a sector, data centres, with growing pricing power and interesting dividend yield.

VGP – increased exposure based on attractive valuation, following under performance and increasingly attractive dividend yield.

Kilroy – reduced exposure based on deteriorating outlook for (US) west coast office exposure.

Segro – increased exposure based on attractive valuation, following under performance.

Outlook/positioning

The team remain wedded to the Global Cities strategy and continue to invest in the most sustainable companies with assets in the most sustainable locations. The team favour sectors which benefit from trends disrupting real estate markets, in particular, those that support the rise of the digital economy. The team believe these trends will continue to grow and will drive positive portfolio performance over its investment horizon of 3-5 years.

Calendar year performance (%)

	C Acc	Target*
2021	24.5	26.1
2020	-0.8	-9.0
2019	30.4	21.9
2018	-9.2	-5.6
2017	13.6	10.4
2016	-0.6	4.1
2015	-0.5	-0.8
2014	11.8	15.0
2013	0.8	3.7
2012	27.0	27.7

Source : Schroders, net of fees, NAV to NAV with net income reinvested. C Acc share class, as at 31 December 2021. *FTSE EPRA NAREIT Developed Index (Net TR, USD)

*Schroder International Selection Fund is referred to as Schroder ISF throughout

Risk considerations

Real Estate and Property Risk: Real estate investments are subject to a variety of risk conditions such as economic conditions, changes in laws (e.g. environmental and zoning) and other influences on the market.

Currency risk: The fund may lose value as a result of movements in foreign exchange rates.

Emerging Markets & Frontier risk: Emerging markets, and especially frontier markets, generally carry greater political, legal, counterparty, operational and liquidity risk than developed markets.

Sustainability Risk Factor: The fund has the objective of sustainable investment. This means it may have limited exposure to some companies, industries or sectors and may forego certain investment opportunities, or dispose of certain holdings, that do not align with its sustainability criteria. Therefore, the fund may underperform other funds that do not apply similar criteria. The fund may invest in comp.

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.

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.

IBOR: 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.

Derivatives risk: 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.

Important information