

Schroder Global Cities

Fund Managers: Tom Walker & Hugo Machin | Fund update: July 2024

Portfolio & market review

Global equities were broadly higher in July as inflation in most developed countries continued to approach target levels and geopolitical uncertainty was reduced following the French and UK elections. The real estate sector performed strongly, outperforming the broader market, as expectations increased that Federal Reserve interest rate cuts would result from lower inflation and deteriorating macroeconomic data.

The top contributors to the fund were Tower REITs, which are key beneficiaries of lowering interest rates. Japanese developers also performed strongly, benefiting from a strengthening yen, a sharp reversal of the previous weakening trend. Industrial REITs also performed strongly, rebounding as they reported stronger-than-expected earnings. In terms of detractors, Data Center REITs, which are an overweight in the fund, lagged the sector in the month as the market became more sceptical about the Gen-AI trend, which had led to the sector being a top performer year-to-date. Retail REITs, an underweight, detracted as the largest holding, which is one of the top contributors year-to-date, lagged the broader market. Finally, Single Family REITs detracted as one holding disappointed the market with its results.

We continue to see direct market participants looking to take advantage of attractive valuations in listed real estate compared to higher asset prices in the direct market.

Portfolio activity

In July, we made several changes to the fund as the market environment continued to develop. In APAC, we took profits from our holdings in Japanese developers, which had performed strongly year to date.

In Europe, we exited Unite Group, the UK student accommodation provider, due to slowing demand from international students, historically high rents as a proportion of student income, and the uncertain policy approach from the UK's Labour Party, which reduced the potential upside given the risks. We moved this capital into Segro, which is developing data centres on the outskirts of London and is well-positioned to fulfil the demand for Gen-AI in the city.

Finally, in the US, we reduced our holding in Invitation Homes, the US single-family company, and increased our exposure to US triple net lease companies

Broadstone Net Lease and Essential Property Realty, where we see greater upside.

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 (%)

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 amount originally invested. Exchange rate changes may cause the value of any overseas investments to rise or fall.

	Z Acc	Target*	Comparator 1**	Comparator 2***
2023	5.2	7.1	4.6	-0.4
2022	-19.5	14.0	-14.9	-7.8
2021	26.7	8.3	28.4	7.4
2020	-4.1	3.3	-11.0	-3.8
2019	26.1	4.5	18.3	-0.8
2018	-3.4	5.4	1.2	2.9
2017	4.1	6.2	1.8	7.6
2016	19.9	4.2	25.2	-2.0
2015	5.2	3.1	5.8	7.6
2014	19.5	4.0	23.1	12.2
2013	-0.2	5.1	2.5	7.9
2012	22.2	5.8	23.0	1.5

Source: Schroders, net of fees, NAV to NAV with net income reinvested. Z Acc share class, as at 31 December 2023. *UK CPI +3% lagged **FTSE EPRA NAREIT Developed Index (Gross TR, GBP). ***InvAssoc property

Risk considerations

Capital risk / distribution policy: As the fund intends to pay dividends regardless of its performance, a dividend may represent a return of part of the amount you invested.

Counterparty risk: The fund may have contractual agreements with counterparties. If a counterparty is unable to fulfil their obligations, the sum that they owe to the fund may be lost in part or in whole.

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

Derivatives risk: Derivatives, which are financial instruments deriving their value from an underlying asset, may be used to manage the portfolio efficiently. The fund may also materially invest in derivatives including using short selling and leverage techniques with the aim of making a return. 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.

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

Higher volatility risk: The price of this fund may be volatile as it may take higher risks in search of higher rewards, meaning the price may go up and down to a greater extent.

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, meaning investors may not be able to have immediate access to their holdings.

Market risk: The value of investments can go up and down and an investor may not get back the amount initially invested.

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.

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.

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