

## Schroder Global Cities

Fund Managers: Tom Walker &amp; Hugo Machin | Fund update: November 2024

**Portfolio & market review**

In November 2024, Donald Trump defeated Kamala Harris in the U.S. presidential election, marking a significant political comeback. Following the election, the Federal Reserve cut interest rates in response to cooling inflation. However, with future U.S. economic policy uncertain and inflation remaining somewhat elevated, policymakers are now considering a more gradual approach to subsequent rate cuts. The broader equity market continued to advance during the month, with the real estate sector trailing slightly but still delivering positive returns.

Retail REITs performed strongly due to increased foot traffic as the holiday shopping season started, strong leasing and M&A activity, reflecting renewed confidence in brick-and-mortar retail. Data Center REITs also contributed alpha, driven by record demand for cloud computing and AI infrastructure. Office REITs added value through stock selection, with the fund invested in companies with younger, better located portfolios that are enjoying improving demand. Conversely, Real Estate Development companies detracted amid country-specific challenges. Single-Family REITs faced headwinds from slowing rental growth and dampening investor sentiment. Health Care REITs declined over relative valuation concerns, despite reporting very positive results.

While the market was influenced by short-term political speculation, our strategy remains focused on fundamentals. Earnings continue to be supported by low supply and long-term structural demand in certain sectors.

**Portfolio activity**

In the Americas, we exited Retail Opportunity Investment Corp (ROIC) and re-allocated proceeds to Kimco Realty Corp, another Retail REIT. This switch reversed a trade initiated in July 2023, on our thesis that ROIC was trading well below its intrinsic value, making it a potential acquisition target. This view was rewarded by Blackstone, who bid for the company, sending shares more than 30% above their unaffected price. We now see greater upside in Kimco's high-quality grocery anchored 'strip centre' portfolio, where occupancy is returning to peak and driving better pricing power and earnings growth.

In Europe, we increased our position in Unibail-Rodamco-Westfield to capitalize on its high-quality

retail assets, while trimming Segro where we see less relative 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

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**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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