

## Schroder ISF\* Global Cities

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

**Portfolio & market review**

In December 2024, markets grappled with shifting macroeconomic conditions as the Federal Reserve cut rates but signalled that there would be fewer planned interest rate cuts next year, citing resilience in core inflation and improved economic momentum. This pause brought a mixed reaction across equities, with listed real estate delivering negative returns and underperforming the broader equity market.

Hotel & Resort REITs outperformed in December, driven by strong leisure travel demand during the holiday season and resilient international travel markets, which boosted forward guidance. Residential REITs delivered strong returns as sustained rental demand in urban areas and limited new supply supported steady rental growth, despite affordability concerns. Retail REITs performed well, benefiting from robust holiday shopping activity and strong leasing trends in grocery-anchored and experiential retail centres, highlighting their resilience. Conversely, Specialised REITs underperformed, particularly towers and data centres, because of concerns that rates might stay higher for longer. Industrial REITs lagged as rental growth moderated further in coastal markets, with high valuations and softening e-commerce demand weighing on the sector. Finally, the storage REITs were weak as investors focussed on deteriorating 'on street' pricing as well as increased supply.

Despite the macro uncertainty, we remain committed to a fundamentals-driven approach. Strong secular tailwinds, such as artificial intelligence and demographic trends, continue to underpin attractive long-term growth prospects in most real estate sub-sectors.

**Portfolio activity**

In the Americas, we switched capital from Invitation Homes, the single-family REIT, re-allocating to Essex Property Trust, the West Coast focused multi-family REIT, due to higher potential upside. We reduced our holdings in Sun Communities and Welltower as their share prices approached their price targets.

**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 reliable indicator of future results. The value of investments and the income from them may fall as well as rise and investors may not get the amount originally invested.**

	C Acc	Target*
2024	0.8	0.9
2023	10.3	9.7
2022	-28.5	-25.1
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

Source: Schroders, net of fees, NAV to NAV with net income reinvested. C Acc share class in USD, as at 31 December 2024. \*The fund's benchmark changed on 21 June 2021 from US Consumer Price index plus 3%. The past performance presented is based on the current target benchmark, FTSE EPRA NAREIT Developed index (Net TR, USD).

Some performance differences between the fund and the benchmark may arise because the fund performance is calculated at a different valuation point from the benchmark.

Please see the respective fund factsheets for the performance of other share classes.

## 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.

**Sustainability risk:** The fund has environmental and/or social characteristics. 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 chosen by the investment manager. The fund may invest in companies that do not reflect the beliefs and values of any particular investor.

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