

Schroder ISF* Global Cities

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

Portfolio & market review

March saw an upgrade in the expected US GDP growth, despite lower revised job numbers. This adjustment has led to a more gradual expectation of interest rate cuts by the Federal Reserve, with three cuts still anticipated in 2024. In contrast, Europe and much of Asia face more mixed conditions, marked by mostly sluggish growth, albeit with steadily declining inflation. The real estate sector, which continued a rally that had started in February, ending March flat on a year-to-date basis with positive momentum.

Japanese developers spearheaded the rally, buoyed by improved sentiment towards Japanese corporate governance and heightened expectations for increased shareholder payouts. This optimism has attracted international investors to Japan. Retail REITs also saw benefits, driven by stronger-than-expected US consumer sentiment, a more optimistic outlook, and high, sustainable dividends. The worst-performing sector was Data Centres, affected partly by the strong year-to-date performance of the sub-industry and also by a widely publicized short-selling report targeting one of its major companies, Equinix.

While negative media coverage continues to focus on over-leveraged, primarily private real estate office companies, it overlooks the fact that offices constitute a small fraction of the listed real estate sector. Compared to other sectors, listed real estate is attractively priced, with robust earnings and high dividends, positioning it well to navigate a variety of macroeconomic scenarios in the future.

Portfolio activity

The only material changes to the portfolio were in the Americas in March. We took some profits from Digital Realty which had performed strongly year-to-date and exited Federal Realty Investment Trust REIT due to limited expected upside. We opened positions in two Net Lease companies; Broadstone Net Lease and Essential Properties Realty Trust, the two names in the sector with the biggest opportunity to surprise to the upside on earnings and take advantage of capital constrained competitors in making value accretive acquisitions.

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*
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
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 in USD, as at 31 December 2023.

*The fund's benchmark changed on 1 May 2021. The past performance is based on target benchmark: FTSE EPRA NAREIT Developed index (Gross TR, USD). Going forward, past performance from this date based on target: FTSE EPRA NAREIT Developed index (Net TR, USD).

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.

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

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.

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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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