

SHINING A LIGHT ON..... SCHRODERS GLOBAL REAL ESTATE SECURITIES FUND

Update....

We reviewed this fund at a time that new managers were coming on board and past performance had been mixed. The new team came on board in August 2014 and over the last few months we have started to see an improvement in the fund performance particularly with the Income version of the fund. It may still not appear on people's radar but it is certainly a fund to watch.

In this update on the non-income fund we spoke to Tom Walker one of the co-managers on the fund for a reminder as to what they are looking to achieve and why this fund is different. Tom explained that at the moment there are many unknowns out there but one certainty is that certain cities will grow more strongly than the countries they are in. These he calls global cities and it is in these places that he wishes to invest.

Working with a company called Foursquare they can identify specific points where things are happening within a city, this is called the pulse. So in New York areas like Central Park, Times Square and Wall Street but it can go much more granularly so within shopping centres it can identify the most productive parts.

Unsurprisingly some of the main cities include Stockholm, London, Shanghai, Tokyo, San Francisco and Boston. Once they have identified these cities they look for companies which can give the best exposure to these areas.

As an example we talked about London and one holding is Big Yellow. This is a nationwide storage company but has 70% of the London market. In London it is hard to replicate the business and therefore barriers to entry are massive. Additionally, in the US this market is saturated whereas in the UK there is still plenty of room to grow. One of the key questions we had was the impact of a possible exit from Europe, Tom added that there is a risk and that is in two areas firstly office buildings where businesses relocate to Europe and secondly as a consequence residential property. At the moment they have minimal exposure to this part of the market.

Another City they like is Los Angeles which has a diverse economy covering trade, technology and film. Due to restriction on building there is a pent up demand for office space and one company, Douglas Emmett, has significant control of this market as well as proprietary data. This reflects that as managers they are looking for small specialist companies who know the market well and can invest where the greatest value is.

The investment universe is about 1,000 plus companies but once they filter down it reduces to about 300 companies. Some of the key criteria includes management ownership and low levels of debt. Like any investor their aim is to buy cheap and when assets become expensive look to deploy capital to other assets.

Areas they are looking at include Lagos, Shanghai and Mexico City. They have just added a small exposure to Shanghai, and expect to add something from Mexico City in the next 12 months. At the moment they haven't found anything in Lagos and they believe this will be a while before they invest.

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In summary 2015 saw a turnaround in performance although this has slipped slightly moving into 2016. Certainly the strategy is different to others out there and it continues to be a strategy that remains on our radar.

Fund performance

Performance vs iShares Developed Markets Property Yield 2011 to 29 February 2016 is shown below:

| | 2011 | 2012 | 2013 | 2014 | 2015 | 2016 |
|---|--------|--------|--------|--------|--------|--------|
| Schroder Global Real Estate Securities Fund | -7.01% | 21.33% | -1.01% | 18.49% | 4.29% | -0.21% |
| Schroder Global Real Estate Securities Income Fund | - | 16.84% | -0.15% | 13.71% | 0.49% | 3.94% |
| iShares Developed Markets Property Yield | -4.65% | 12.93% | -4.17% | 24.81% | -0.17% | 3.08% |

Performance over 1, 3 and 5 years:

| | 1 Year | 3 Years | 5 Years |
|---|--------|---------|---------|
| Schroder Global Real Estate Securities Fund | 0.64% | 12.39% | 39.86% |
| Schroder Global Real Estate Securities Income Fund | 4.01% | 8.39% | 36.36% |
| iShares Developed Markets Property Yield | 0.15% | 10.75% | 33.74% |

You should note that past performance is not a reliable indicator of future returns and the value of your investments can fall as well as rise. The total return reflects performance without sales charges or the effects of taxation, but is adjusted to reflect all on-going fund expenses and assumes reinvestment of dividends and capital gains. If adjusted for sales charges and the effects of taxation, the performance quoted would be reduced.

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