LWM Consultants Ltd

SHINING A LIGHT ON THE……
Schroder Global Cities Real Estate Fund

AT A GLANCE

Investment Objective
The Fund aims to provide income and capital growth in excess of inflation (as measured by the UK Consumer Price Index) plus 3% per annum (after fees have been deducted) over a three to five year period by investing in equity and equity related securities of real estate companies worldwide. This cannot be guaranteed and your capital is at risk. The Fund is actively managed and invests at least 80% of its assets in equity and equity related securities of real estate companies worldwide which generate the majority of their earnings from real estate investment related activities. The Fund may invest in real estate investment trusts.

Inception Date	9 December 2005
Fund Factsheet Link	https://www.morningstar.co.uk/uk/funds/snapshot/snapshot.aspx?id=F0GBR06FLW

Management	
Manager Name	**Start Date**
Hugo Machin	15th August 2014
Tom Walker	15th August 2014

FUND PERFORMANCE

Performance from 1st January 2015 to 30th September 2020:

	2015	2016	2017	2018	2019	2020
Schroder Global Cities Real Estate Fund	5.30%	19.96%	4.22%	-3.38%	26.12%	-7.12%
FTSE EPRA Nareit Developed PR USD	2.18%	20.18%	-2.09%	-2.67%	13.83%	-19.59%

Performance over 12 months, 3 years, 5 years and since fund manager inception:

	1 year	3 years	5 years	Since fund manager inception
Schroder Global Cities Real Estate Fund	-10.52%	18.38%	50.57%	64.17%
FTSE EPRA Nareit Developed PR USD	-24.40%	-9.11%	12.06%	16.55%

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.

Tracking Error	Upside Capture Ratio	Downside Capture Ratio	Batting Average	Beta	Alpha	Equity Style
4.99	115.16	86.52	61.11	0.91	7.35	Blend/Mid

Volatility Measurements	
3-Yr Std Dev (volatility)	14.87%
3-Yr Mean Return (average)	5.78%

Investment Style Details	
Giant	3.02%
Large	22.03%
Medium	54.02%
Small	19.03%
Micro	0.75%

Top 5 Holdings – 64 equity holdings, 32 other holdings		
Prologis Inc	-	4.34%
Alexandria Real Estate Equities Inc	-	3.42%
UDR Inc	-	3.27%
21Vianet Group Inc ADR	-	3.14%
Camden Property Trust	-	3.10%

Top 5 Regions	
United States	53.49%
Japan	12.27%
Eurozone	8.71%
Asia – Emerging	7.57%
UK	4.92%

UPDATE….

These updates have been written at the time of the Coronavirus Pandemic of 2020, which has impacted the global financial markets in a way that has never been seen before.

We have in the past invested in the income version of this strategy. The strategy changed direction and style overtime and we lost faith in what the team were looking to achieve. This strategy is very different and is a "total return" real estate fund. We can see from the high-level data that the fund has outperformed the index set by Morningstar. This is a global real estate index and therefore is the best match to compare the strategy.

They discussed how we should see the strategy pre and post COVID. When they took over the strategy in 2014 they wanted to develop one that invested in the strongest cities from across the world, because it was clear that this is where the resilient long term returns would come from. In Boston you have Life Science, London is the Financial Hub etc. When COVID struck there was a feeling that cities were dead, and although certain sectors have been disrupted, the fund has always been positioned away from old property to the future. Some of the main holdings include data centres, healthcare and logistics.

We talked about whether parts of this market have become too expensive and they explained that they are disciplined with target pricing, meaning as a stock gets close to a target price they start to reduce down and gradually take that out of the fund. They also look to avoid the macro noise and focus on bottom up stock picking. For data centres some of the most interesting opportunities are in China. One example holding is 21Viante Group which is close to areas of economic growth, transportation etc.

A key part to the strategy is data scientists who look across global to identify the best cities. Within this the real battle is between Coastal Cities in the US and Asia. Europe is unexciting, and data is showing that it will lose out to Asia.

We talked about the sustainable aspect of property and they explained this has always been part of the process as it makes sense with what they are trying to achieve. They also explained that companies are looking for better spaces. Schroders as an example have recently moved to a new development which has all the latest energy saving, water saving and outdoor space. This is not only about reducing the carbon footprint but also about improving the environment for the people that work in the offices. The idea that cities are dead does not tie in with the data they see, for example Microsoft and Netflix have recently signed big long-term leases in London.

In terms of the carbon footprint it is easy to reduce in cities compared to the countryside where people must drive from place to place. We discussed China as an example and they explained that they have been able to develop green cities, and although it appears to be one of the world's worst polluters they believe this will be very different in 5 years.

Moving forward they see property owners being taxed more if they cannot adapt buildings to reduce the carbon footprint. Before COVID this fund had already positioned itself towards the future and COVID has just accelerated the trends. When Facebook recently signed a lease on a data centre it demanded 100% renewable energy. When markets went down, everything went down, but it is now distinguishing between good and bad quality.

This fund does not market itself as a sustainable strategy. We discussed this and the feeling was that the strategy would not exist without sustainability at the core. Ultimately, they are focusing on the properties of the future. By their nature companies are demanding zero carbon footprint and environments that are better for the staff. This means that they just would not invest in a poor-quality investment. And at the same time, it is clear where the best cities are, and this comes back to the US and Asia providing the greatest long-term potential.

In summary, this was an interesting update. For those looking to invest in property this is a daily priced fund and invests in the properties that will drive future growth. The strategy has a small / mid cap bias and therefore will likely be different to other funds. The performance has been strong, but we would expect this to widen moving forward due to its focus on good quality properties across the globe. Although this does not have a sustainable badge it would be certainly be a strategy that could be considered within a portfolio of sustainable assets. It is worth adding that the fund managers invest their money in the fund and believe it is important to align their money with the investors.