SCHRODER GLOBAL CITIES REAL ESTATE - GBP

INVESTMENT RESEARCH NOTE

MARCH 2024

clarity

claurityglobal.com

SUMMARY

Schroder is one of the largest asset managers globally with several hundred £billion of assets under management.

The lead managers are Tom Walker and Hugo Machin who joined the firm in 2014 to revamp the real estate desk. They are joined by 3 other members located globally. Walker and Machin have worked together in real estate since 2006, previously both were at AMP Capital on the Global and European Listed Real Estate desks. Since they joined Schroders the emphasis has been to enhance alpha generation and introduce a more structured approach to stock selection through their screens.

A long-only concentrated (in terms of positions held) equity Reits strategy focusing on long-term capital growth. It can invest in listed property stocks and Reits, with about 70% classed as Reits. It is a diversified strategy covering major global regions, albeit with a bias to North America. The Fund changed its composition in 2014 when the current managers took it over. While the strategy is 'pro-growth', there is a resilience to the portfolio given that they focus is on 'Tier 1' cities only and not higher risk 'Tier 2', for example. The co-FMs have implemented a more rigorous, quant process as part of the investment approach, allowing them to assess individual properties and their related attributes within a company on a global scale. They have 3 major quant databases which screen all major global cities, ranking them by 'desirability', as well as screening individual assets' locations and transport/infrastructure connectivity.

ASSET TYPE

- ● **Equity** 97.44%
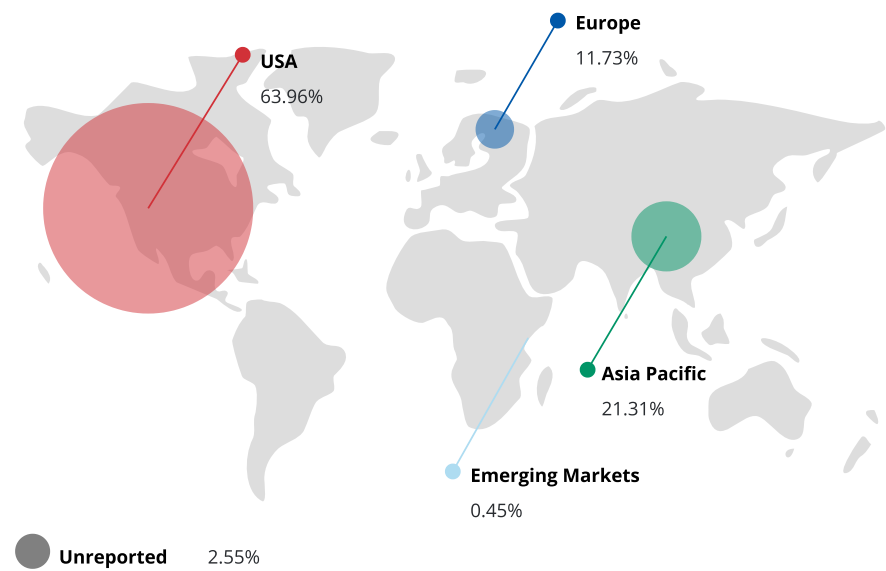- ● **Unreported** 2.56%
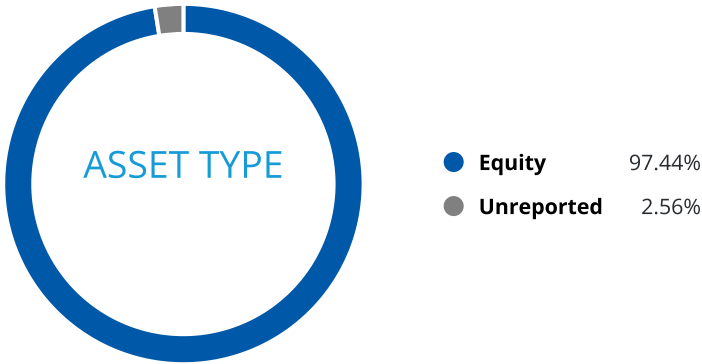
INVESTMENT PROCESS

The investment philosophy stems from the 'virtuous' cycle of global cities from population growth feeding through to increased productivity and hence the creation of job growth. The managers look for the strongest urban economies where growth is robust, searching for attractive 'moats'. The first 'moat' is where a city with strong infrastructure and demand for its assets will support asset valuations over the long-term; the second 'moat' is at the company level, where the team look for high quality names (low leverage, attractive valuations) that are exposed to those cities. The fund focuses on larger cities as smaller ones can lead to value traps. The Fund typically holds between 45-70 stocks and is unhedged.

The investment process is a blend of risk management via the screening of cities to locate the most desirable by key economic values (i.e. GDP growth, rental income growth, etc) with a bottom-up approach to identifying the best companies in those cities. Stage 1 comprises of the 3 quant screens. Here, the aim is to identify companies that own assets in the best city locations globally. It removes bias and provides a core list of companies that the team carried out further due diligence on. The first screen is the Global Cities Index, which screens 700,000 data points to rank cities by productivity across 5 factors: GDP, retail sales growth, population growth, disposable income, university (4 factors are equal weighted while the other, disposable income, has a higher weighting as it has a stronger correlation to rental growth). The second screen is the individual asset database which gives the team visibility over 85,000 assets owned by listed companies. These two screen combine to give an overall 'city score' which the team can then assess for the best opportunities. The team derive two scores from every company to work out the Most Valuable Plot score (MVP) - these are derived from the company city (Global City Index and Asset Database) and the third screen, the transport infrastructure score, where assets are scored based on their proximity to transport connections (a transport 'node') - the closer as asset is, the higher the score.   The companies with the best MVP goes through to the list of 120 companies in stage 2. This results in a 'Long-Term Index' ("LTI") of 120 companies which have the highest exposures to the leading cities. The Fund only invests in a company that is in the LTI.
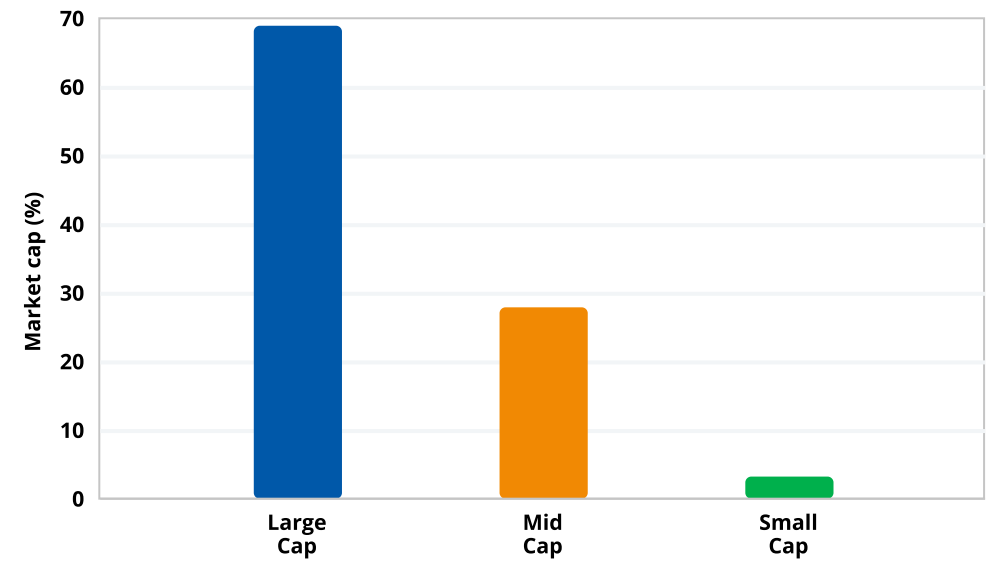
Stage 2 is portfolio construction, related to a quant based risk and valuation appraisal of a company. It looks at balance sheets, liquidity and integrates ESG scores into the process. The starting point is a maximum weight in the portfolio of 6%, the maximum investable range. A company with a poor ESG score gets a discount applied to the final score. Companies are ranked into deciles based on the relative upside vs peers in the LTI which dictates sizing.

AGGREGATED NET EXPOSURE

REGIONAL EXPOSURE

USA
63.96%

Europe
11.73%

Asia Pacific
21.31%

Emerging Markets
0.45%

● **Unreported**   2.55%

EQUITY MARKET CAP (%)

Market cap (%)

Large Cap · Mid Cap · Small Cap

BOND MATURITIES   Not Applicable
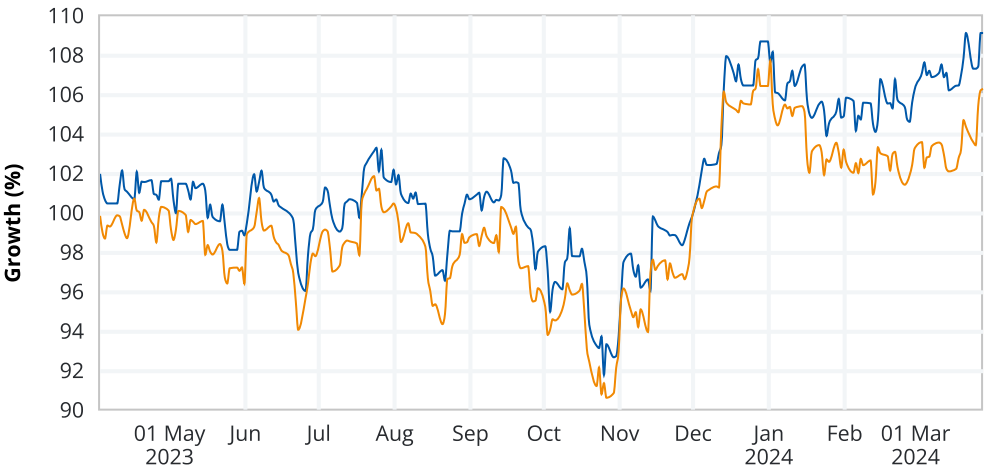
BOND RATINGS   Not Applicable

OVERALL PERFORMANCE

● **Schroder Global Cities Z Acc**　　● **EPRA/NAREIT Developed TR GBP**

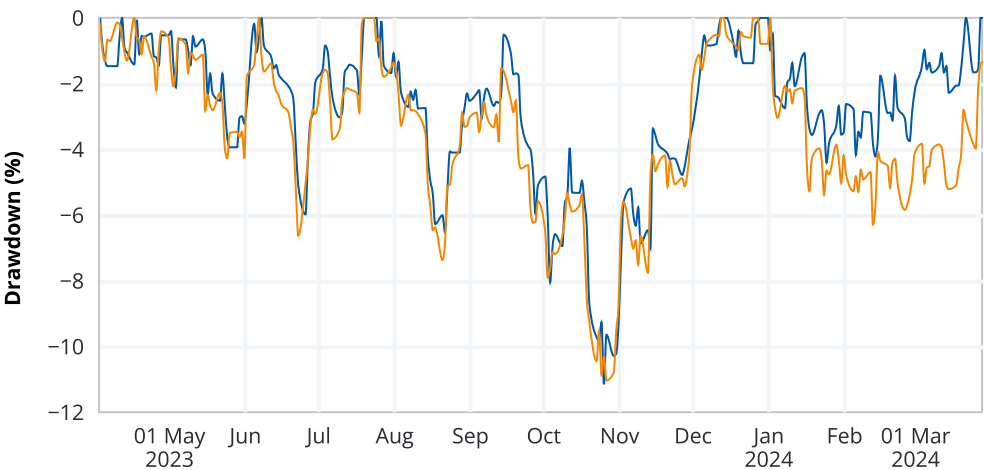## GROWTH (%) - OVER 1 YEAR
3 Apr 2023 - 29 Mar 2024

GROWTH (%) - FROM INCEPTION
7 May 2007 - 29 Mar 2024

DRAWDOWN (%) - OVER 1 YEAR
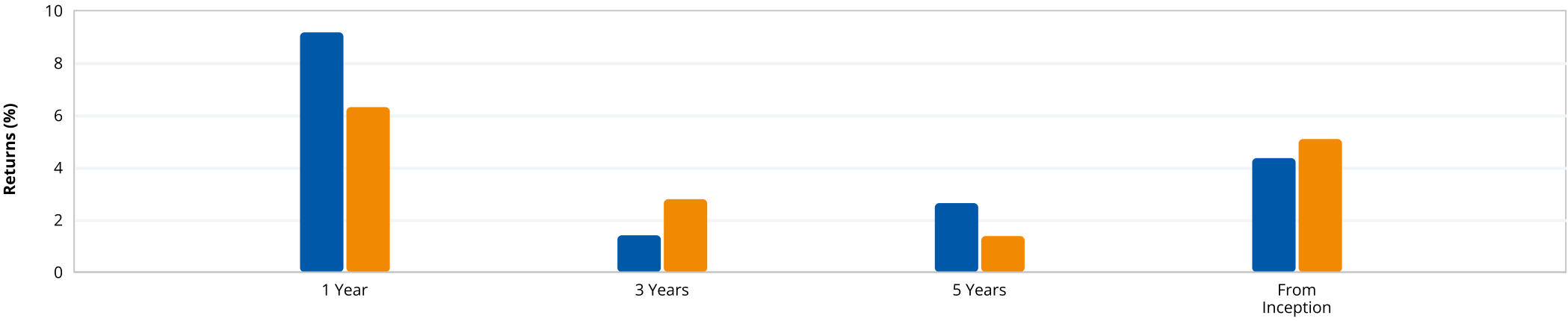3 Apr 2023 - 29 Mar 2024

DRAWDOWN (%) - FROM INCEPTION
7 May 2007 - 29 Mar 2024

● **Schroder Global Cities Z Acc**   ● **EPRA/NAREIT Developed TR GBP**

MONTHLY BREAKDOWN AND YEARLY TOTALS (%)

	JAN	FEB	MAR	APR	MAY	JUN	JUL	AUG	SEP	OCT	NOV	DEC	YEAR
2024	-3.56	0.73	3.34										0.39
2023	4.85	-0.79	-6.98	1.59	-2.47	1.06	1.41	-0.63	-2.87	-5.40	7.28	9.26	5.16
2022	-6.88	-1.07	7.65	1.25	-9.00	-5.90	7.62	-1.79	-9.28	-2.04	2.05	-2.32	-19.49
2021	-0.76	0.74	3.33	3.65	0.29	4.89	2.52	3.73	-1.84	2.41	1.57	3.61	26.73
2020	3.75	-3.76	-15.74	5.63	2.55	2.52	-0.24	0.03	-0.44	-3.54	6.65	0.37	-4.15
2019	8.48	0.11	5.27	0.33	2.92	2.02	5.63	2.10	0.78	-1.07	0.10	-2.76	26.05

Capped to 6 years.

ANNUALISED ROLLING RETURNS (%)

	1 YEAR	3 YEAR	5 YEAR	INCEPTION
▬	9.17	1.41	2.64	4.36
▬	6.31	2.79	1.38	5.09

CUMULATIVE RETURNS (%)

	1 YEAR	3 YEAR	5 YEAR	INCEPTION
▬	9.10	4.26	13.84	105.00
▬	6.26	8.57	7.04	130.46

ANNUALISED ANALYTICS

● **Schroder Global Cities Z Acc**   ● **EPRA/NAREIT Developed TR GBP**

PERFORMANCE - OVER 1 YEAR   3 Apr 2023 - 29 Mar 2024

	●	●
RETURNS (%)	9.17	6.31
VOLATILITY (%)	14.12	13.97
ALPHA	-0.10 *	
BETA	1.01 *	1.00
CORRELATION	0.95 *	1.00
SHARPE RATIO	0.29	0.09
SORTINO RATIO	0.43	0.14
MAX DRAWDOWN (%)	-11.15	-11.04

PERFORMANCE - FROM INCEPTION   7 May 2007 - 29 Mar 2024

	●	●
RETURNS (%)	4.36	5.09
VOLATILITY (%)	18.79	18.67
ALPHA	-0.03	
BETA	0.92	1.00
CORRELATION	0.95	1.00
SHARPE RATIO	0.15	0.19
SORTINO RATIO	0.21	0.27
MAX DRAWDOWN (%)	-58.87	-58.85

*Calculated over a 3 year period where history permits.

SIMPLE STRESS TEST DRAWDOWN (%)   3 Apr 2023 - 29 Mar 2024

Stress test notes

The chart shows the calculated drawdown over a trailing 12-month period. The Review Point is a potential intervention point. Any drawdown above this line indicates a typical drawdown in a normal market cycle. Should the drawdown exceed the Review Point, then this indicates that market conditions may be abnormal. This is the point at which immediate action should be considered.

Risk warning: The past is not necessarily a guide to future performance. The value of your investment and the income from it can fall as well as rise and is not guaranteed. You may not get back the full amount invested. Our views are based upon our understanding of current legislation in England. Levels and bases of, and reliefs from, taxation are subject to change and their value to you will depend upon your personal circumstances. You should not act on any of the information without seeking professional advice. clarity Ltd is authorised and regulated by the Financial Conduct Authority (FCA).