

Schroder Global Real Estate Securities

Focused on total returns over the long term

Schroder Global Real Estate Securities (SGRE) is an actively managed closed-ended fund providing exposure to global real estate through investing in a concentrated but diverse portfolio of listed securities. Following the appointment of Schroders as investment manager in July 2014, a total return strategy was adopted, the portfolio repositioned and the dividend re-based to a sustainable level. Subsequent performance has been ahead of the FTSE EPRA/NAREIT Developed index and one-year performance is comparable to open-ended peers. The manager follows a disciplined approach, focusing on higher-quality assets, aiming to maintain a portfolio resilient to changes in the economic environment and capable of delivering sustainable returns over the long term.

12 months ending	Total share price return (%)	Total NAV return (%)	FTSE EPRA NAREIT Dev. (%)	S&P Global Property (%)	FTSE World (%)	FTSE All-Share (%)
31/05/12	3.0	1.2	0.2	(0.0)	(5.4)	(8.0)
31/05/13	44.8	21.6	27.0	29.7	29.4	30.1
31/05/14	(11.7)	(1.8)	(0.7)	(2.7)	7.0	8.9
31/05/15	18.8	15.4	16.4	17.6	15.8	7.5

Note: 12-month rolling discrete £-adjusted total return performance.

Investment strategy: Selecting for the long term

SGRE aims to provide investors with an attractive total return from a portfolio of listed global real estate securities measured against the FTSE EPRA/NAREIT Developed Global Real Estate index on a rolling three-year basis. The manager seeks to identify real estate companies with the best quality assets, in the strongest markets, with the strongest balance sheets and management teams aligned with shareholders' interests, investing subject to a detailed risk/return assessment. The low gearing, sustainable pay-out ratios and strong earnings growth potential that typify these holdings should provide resilience to changes in the economic environment and enable them to deliver sustainable compound returns.

Market outlook: Potential for further recovery

The global real estate market has performed strongly in recent years, with listed investment returns ahead of bonds and equities in the five years to end-2014 (see Exhibit 2). Although the US and UK, two of the largest real estate markets, appear to be well into their cyclical recoveries, many other countries are yet to see any significant recovery from the 2008 downturn. While concerns exist over the effect of rising interest rates on the US market, current income returns compare favourably with bond yields suggesting pricing levels are not overly stretched and market fundamentals are supported by the improving economy.

Valuation: Narrowing discount

SGRE's share price has moved between a 16% discount to NAV (including income) and a 2% premium over the last three years. The suspension of the discount control programme in April 2014 saw the discount widen from 2% to 15% over the following six months. However, since the new investment strategy was adopted in October 2014, the discount has narrowed from 15% to its current level of 6%.

Investment trusts

22 June 2015

Price 119p
Market cap £57.8m
AUM £61.6m

NAV* 126.1p
Discount to NAV 6.0%
NAV** 126.1p
Discount to NAV 6.0%

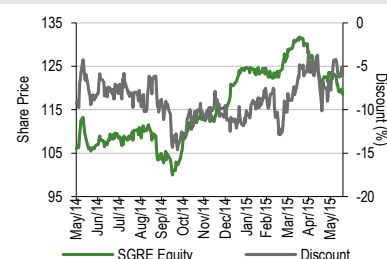
*Excluding income. **Including income.

Prospective yield 1.3%
Ordinary shares in issue 48.8m
Code SGRE

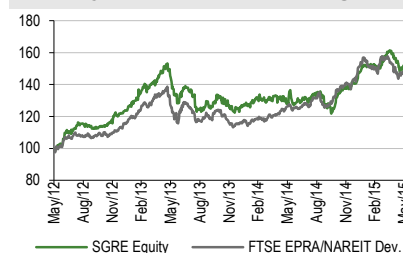
Primary exchange LSE

AIC sector Property Securities

Share price/discount performance



Three-year cumulative perf. graph



52-week high/low 131.8p 100.0p
NAV** high/low 142.8p 113.8p

**Including income.

Gearing

Gross* 0.0%
Net cash* 1.0%

*As at 31 May 2015.

Analysts

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Exhibit 1: Trust at a glance
Investment objective and fund background

Following amendment in October 2014, SGRE's investment objective is to provide investors with an attractive total return, through investing in global real estate securities with strong fundamentals, offering sustainable income and a progressive dividend potential. Outperformance of the FTSE EPRA/NAREIT Developed index is targeted on a rolling three-year basis.

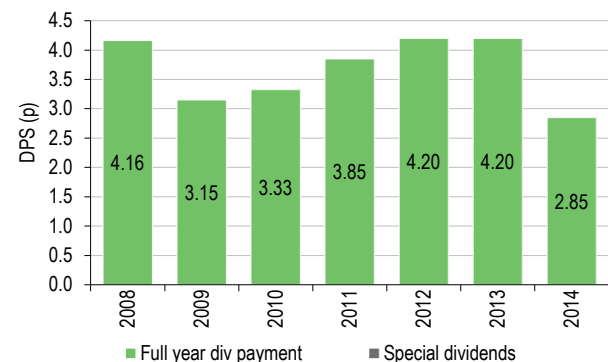
Recent developments

- 28 May 2015: continuation vote introduced at June 2017 AGM.
- 28 May 2015: Panmure Gordon appointed as corporate broker.
- 23 April 2015: results for 12 months to 31 December 2014 – NAV total return +21.8%; FTSE EPRA/NAREIT Developed index +23.1%.
- 21 April 2015: 0.375p dividend declared for Q115.
- 26 January 2015: 0.375p dividend declared for Q414.

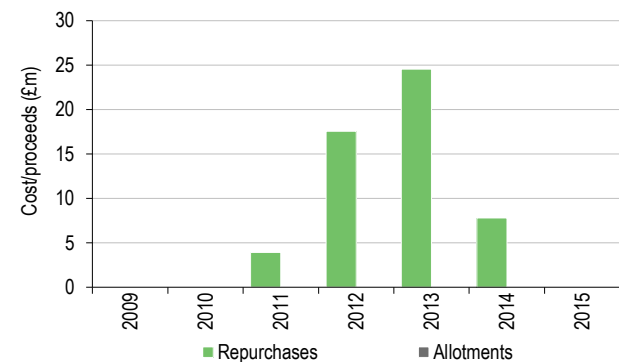
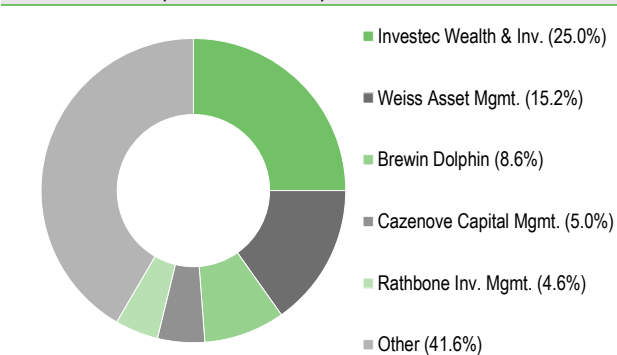
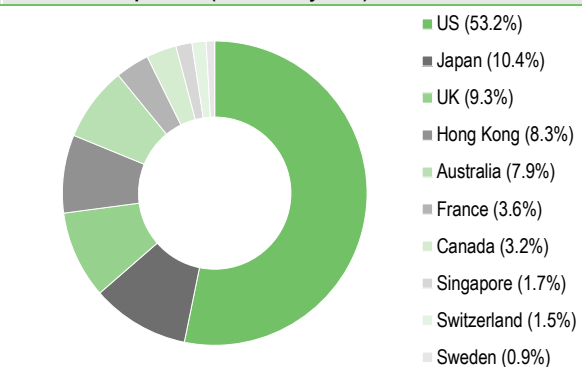
Forthcoming		Capital structure		Fund details	
AGM	12 June 2015	Ongoing charges	2.10%	Group	Schroder Real Estate Investment Management (SREIM)
Interim results	September 2015	Net cash	1.0%	Managers	Tom Walker & Hugo Machin
Year end	31 December	Annual mgmt fee	0.85% pa of net assets	Address	31 Gresham Street, London, EC2V 7QA
Dividend paid	Quarterly	Performance fee	None	Phone	020 7658 3780
Launch date	31 May 2006	Company life	Indefinite (2017 cont'n vote)	Website	schroderglobalrealestatesecurities.com
Continuation vote	June 2017	Loan facilities	None		

Dividend policy and history*

Note: *SGRE pays dividends quarterly. The quarterly dividend was reduced to 0.375p from Q314, expected to be a sustainable level over the medium-term.


Share buyback policy and history*

Note: *SGRE has authority to purchase up to 14.99% and allot up to 9.9% of issued share capital.


Shareholder base (as at 15 June 2015)

Distribution of portfolio (as at 31 May 2015)

Top 10 holdings (as at 31 May 2015)

Company	Country	Sector	% of NAV	
			31 May 2015	31 May 2014*
Simon Property	US	Shopping malls	6.3	N/A
Equity Residential	US	Apartments	4.0	N/A
Public Storage	US	Storage	3.9	N/A
Mitsui Fudosan	Japan	Diversified	3.5	N/A
Boston Properties	US	Offices	3.4	N/A
Mitsubishi Estate	Japan	Diversified	3.3	N/A
ProLogis	US	Warehouse & industrial	3.3	N/A
Sun Hung Kai Properties	Hong Kong	Apartments	3.0	N/A
Essex Property Trust	US	Apartments	2.8	N/A
Land Securities	UK	Diversified	2.7	5.3
Top 10			36.2	N/A

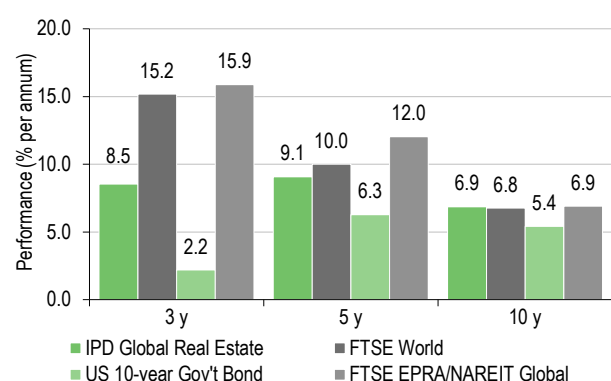
Source: Schroder Global Real Estate Securities, Edison Investment Research. Note: *N/A where not in May 2014 top 10.

Market outlook: Potential for further recovery

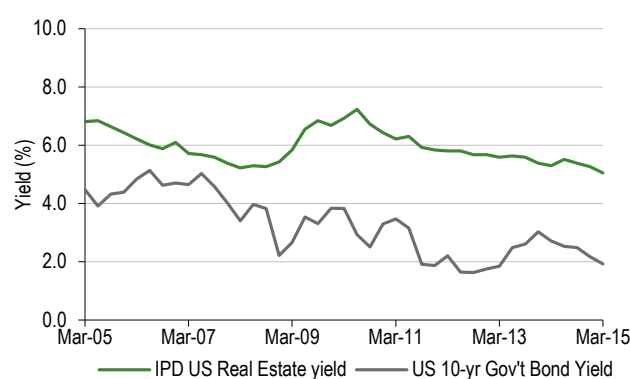
Investors are likely to consider investment in property for a number of reasons. Within a portfolio it has the potential to provide diversification because property asset values have a low correlation with equities and bonds over longer periods. Longer-term returns have tended to fall between equities and bonds (similar to equities over 10 years – see Exhibit 2) and volatility has been below that of equities. Also, as a real asset with rental income subject to upward reviews, property can provide a measure of inflation protection.

Exhibit 2: Real estate returns vs equities and bonds over 10 years

Global real estate total returns vs equities and bonds to 31 December 2014



US real estate yield vs 10-year government bond yield to 31 March 2015



Source: Thomson Datastream, Bloomberg, Edison Investment Research

After a strong post-crisis period for property returns (+9.1% per annum over five years for the IPD global index) it is reasonable to query the likely level of prospective returns for the asset class. Yields have fallen as the hunt for returns has driven valuations up across asset classes (Exhibit 2 right-hand chart shows the yield for the IPD US index as an example). While this suggests the potential for further capital gains may now be more limited in certain markets, there is still a positive argument in terms of the relative level of income provided by property assets, with a yield spread between property income (IPD Global index) and government bonds standing at over 320bps at end 2014 (US yield spread 290bps at end March 2015).

Historically, there has been a wide variation in total returns across major regions in individual years illustrated by the UK's 17.8% return in 2014 compared with 6.0% for Germany. Over longer timeframes significant differentials still exist with US returns of 7.9% pa over the last 10 years compared with 3.7% pa for Germany. The range of outcomes across global market segments has been less pronounced with retail at 7.5% pa and office at 6.5% pa over 10 years. For 2014, income yields on a global basis varied between 4.7% for residential and 5.6% for retail. Variations between major regions were narrower with a UK yield of 5.2% compared with 5.6% in the US. While yields on this composite basis appear grouped within relatively narrow ranges, in practice there will be significant differences within markets creating opportunities and challenges for investors evaluating potential investments.

There could be concerns over the potential impact on asset values once monetary policy starts to normalise in markets such as the US and UK. However, there have been periods of rate tightening in which property has recorded positive capital returns and policy normalisation is itself a manifestation of increasing economic strength, also evidenced by rising employment, which itself is a key positive indicator for property markets.

Investing in property through listed companies (the approach used by SGRE) introduces an increased element of market-related volatility but for longer-term investors, returns are likely to be real estate asset related with the potential for managers to add value through astute strategic and

tactical allocation. The greater liquidity of property securities should give access to assets at fairer valuations as well as facilitating portfolio changes.

A brief history of SGRE

Schroder Global Real Estate Securities was incorporated in April 2006 and listed on the London Stock Exchange in May 2006 as ING Global Real Estate Securities (IGRE). Managed by ING Clarion Real Estate Securities, the fund's investment objective was to provide an attractive total return through investing in listed and unlisted global real estate securities selected primarily for their potential to provide high and rising dividend income leading to long-term capital appreciation. In July 2011, CBRE Global Investors purchased ING Clarion Real Estate Securities (renamed CBRE Clarion Securities) and the company's name was changed to Investors in Global Real Estate.

Discount control mechanism

Although the share price discount to NAV had narrowed considerably from 65% in December 2008 to 5% in October 2009, the board was disappointed by the wide discount (averaging 21%) which persisted during 2010 and consequently initiated a share buyback programme in 2011 which saw 4.5% of the outstanding shares repurchased. This was supported by a tender offer for 10% of the issued share capital at a 10% discount to NAV in June 2012 (announced in September 2011). Taking the view that holding 15% of the portfolio in unlisted investments may have been affecting the discount, these holdings were sold in the second half of 2012 and the strategy changed to focus solely on listed real estate securities. In November 2012, a new share buyback policy to defend a 5% discount to NAV was introduced and this was tightened to a 2% discount in April 2013.

Intended share offer and placing

Given the significant level of share buy backs and the reducing market capitalisation (£59.9m at end-2013), in December 2013, a share offer and a subsequent placing programme were proposed to increase the company's market capitalisation to at least £100m with an intention to increase market capitalisation to £200m by December 2014. Due to limited market demand, the share offer did not proceed and an EGM was convened in April 2014 to hold a continuation vote, which was passed by shareholders. At the June 2014 AGM, the resolution to authorise the issue of shares on a non-pre-emptive basis was voted down by shareholders and the placing programme was closed.

New investment manager and name change

Following an extensive review process, the decision was taken in March 2014 to appoint a leading UK-based investment manager and notice was served on US-based CBRE Clarion Securities. Following shareholder approval at the April 2014 EGM and receipt of regulatory approvals, the appointment of Schroder Property Investment Management was confirmed in July 2014. At the same time, it was proposed that the company's name be changed to Schroder Global Real Estate Securities. Schroder Property (subsequently renamed Schroder Real Estate Investment Management) announced the establishment of a new Global Property Securities team with Tom Walker and Hugo Machin joining from AMP Capital to become SGRE's joint portfolio managers.

Revised investment objective

Following a strategic review, the board concluded that superior performance over the long term was best pursued by focusing on total return, rather than primarily targeting a higher income return, and proposed an amendment to the trust's investment objective in August 2014. Along with the change of name to Schroder Global Real Estate Securities, the change to the investment objective was approved at an EGM held in October 2014. The new investment objective is to provide investors

with an attractive total return, through investing in listed global real estate securities with strong fundamentals, offering sustainable income and a progressive dividend potential. This change has led to a reduction of the dividend to a level expected to be sustainable over the medium term.

Fund profile: Investing in global real estate securities

SGRE is a Guernsey-registered investment company with the investment objective being to provide investors with an attractive total return, through investing in listed global real estate securities, which the investment manager believes have strong fundamentals, offering sustainable income and a progressive dividend potential.

The fund is characterised by a relatively short list of conviction holdings and avoids a 'home' UK bias with only 8.3% exposure to this market. As such, it could be seen as a useful diversifier within an investment portfolio.

SGRE is managed by Schroder Real Estate Investment Management's (SREIM) Global Property Securities team, established in July 2014, with Tom Walker and Hugo Machin acting as joint portfolio managers. The team includes locally-based regional research teams with four analysts covering North America, two covering Europe and nine covering Asia Pacific. The managers also draw on the wider resources of Schroder Investment Management with regional specialists able to provide additional insight into economic developments and market dynamics.

The fund managers: Tom Walker and Hugo Machin

The managers' view: Focused on structural growth drivers

Tom Walker and Hugo Machin believe that maintaining a disciplined approach, focusing on selecting the highest quality real estate investments from a global universe and only acquiring investments when there is the prospect of superior returns provides the greatest opportunity to achieve long-term outperformance. They believe that it is important to filter out what they consider to be market noise from the investment decision-making process to achieve the best long-term returns. This 'noise' predominantly relates to changing views on the macroeconomic outlook including GDP growth, interest rate and foreign exchange rate forecasts. Their view is that maintaining a consistent focus on the quality of the underlying assets they are investing in, and basing investment decisions on the intrinsic value of these assets, will lead to superior long-term returns.

The managers' intention is to achieve the cleanest possible diversified proxy for real estate, and they aim to buy and hold investments for the long-term. They maintain a rigorous fundamental approach to researching investment opportunities and do not seek short-term trading opportunities. Although focused on investing in companies with less geared balance sheets, the managers consider there is sufficient underlying gearing in the portfolio and do not intend to use gearing to enhance portfolio returns.

The managers place a high level of importance on meeting management and visiting assets, and seek to maintain a detailed and up-to-date knowledge of the assets owned and operated by the companies they invest in. They see the value of real estate assets as often highly dependent on local factors, and consider the detailed analysis undertaken by the team essential in identifying unique real estate, one of the four structural growth themes that represent a key element of their investment philosophy (see page 7). They cite the variation in economic growth rates between cities to highlight the importance of local market knowledge, giving the example of London being considered more likely than other UK cities to ride out dips in the economic cycle.

Asset allocation

Investment process: Disciplined bottom-up stock selection

The managers' investment philosophy is that real estate companies in supply-constrained markets with strong management teams and low gearing will outperform. This translates into a focus on investing in higher quality companies which own buildings that high-quality tenants want to occupy and do not borrow too heavily against the value of these buildings. These companies are considered most able to deliver a reliable and growing income from a stable capital base.

A disciplined fundamental approach to stock selection is adopted, which tends to lead to longer average holding periods for portfolio companies, as well as being expected to deliver stronger long-term returns. For example, the manager aims to ignore market noise resulting from short-term changes in US interest rate expectations. The performance of real estate securities is seen as correlating more strongly with real estate markets than equity markets over timeframes longer than 18 months and it is exposure to the performance of the underlying real estate markets that the manager seeks to provide through the portfolio.

The team's valuation database includes 300 to 350 stocks which undergo an initial screening in order to identify those companies that meet the managers' criteria of being exposed to at least one structural growth driver as well as having a strong management team and low gearing. This produces a long-term index which is a focus list of c 100 stocks which are analysed in detail. Given the fixed nature of property assets, the constituents of the long-term index do not change very frequently.

The investment process is team-based with every team member contributing to investment decision-making. However, the ultimate stock selection and portfolio construction rests with the co-managers. Portfolio construction is driven by bottom-up stock selection with no target weightings to sectors, countries or regions. The investment process ensures that the team is aware of potentially excessive or unintended portfolio concentrations.

The decision to invest in a company is primarily driven by an analyst's conviction that a stock is fundamentally undervalued and the identification of a catalyst expected to lead to a narrowing of the gap between the market price and fair value assessment, leading to outperformance.

Investment risk is spread as a result of the manager monitoring the portfolio with a view to ensuring that it retains an appropriate balance to meet the investment objective. Investment restrictions are broad and, in practice, do not constrain the manager's approach. A maximum of 20% of total assets can be lent to or invested in any one company or group in aggregate at the time of investment and no more than 10% can be invested in an individual security. As a minimum, the portfolio is required to have exposure to at least four listed real estate markets including the US, Canada, Asia (including Hong Kong, Japan, Singapore), the UK, continental Europe, Australia and New Zealand with a maximum of 65% invested in any one market.

A detailed two-step investment analysis, incorporating risk and valuation elements, is undertaken on each of the stocks in the valuation database with particular in depth research on those companies in the long-term index. A quantitative risk analysis of each company defines a risk score based on a combination of the assessed influence of structural growth drivers, quality of management and balance sheet strength. These risk scores determine a model portfolio weighting range within +/-4% allocation limits relative to the FTSE EPRA/NAREIT Developed index.

Detailed models are maintained to assess the fair value of each stock and the differential between the market and fair value determines a more precise model portfolio weighting within the risk-determined range. While the model portfolio weightings change frequently due to share price movements, the managers do not seek to rebalance the portfolio continually, preferring to trade

only when there is a major differential between the actual and model portfolio weightings. This could result from a sharp or sustained share price move or a fundamental reassessment of fair value by the relevant analyst on the team.

Structural growth is given the greatest weighting in the risk scoring process and there are four key themes considered by the analysis:

- **Unique real estate** – such as Westfield shopping centres, which are seen as retail destinations, offering convenience and a unique shopping experience and are considered unlikely to be replicated by a competitor in the near-term.
- **Urbanisation** – an increasing desire to live and work in city-centre locations rather than commuting, benefits properties such as One New Change in London and rental apartments in key employment centres for growth companies where property prices inhibit purchasing, such as San Francisco which has seen strong demand due to IT company expansion.
- **Demographics** – aging populations and the increasing proportion of the over-75 segment is driving demand for healthcare property and holiday resorts for the wealthier older generation.
- **Technology** – for example, retailers adapting their business models to incorporate opportunities provided by new technology are expected to see higher growth rates than traditional retailers.

Companies with more than one structural growth driver are favoured by the manager. An example is Big Yellow in the storage sector. Urbanisation and rising property prices are driving a trend to smaller home sizes leading to increasing demand for storage. Larger companies in this sector have launched apps enabling customers to identify the most convenient storage locations, check prices and availability, and book storage space very easily.

Proprietary research is conducted by a team of analysts in Asia, North America and Europe which ensures breadth and depth of coverage. The research process has four components which aim to ensure analytical rigour, effective communication and a unified approach enabling the construction of a single global portfolio of property securities rather than an amalgamation of regional portfolios:

- **Stock coverage** – each analyst covers stocks in their local market and all are encouraged to travel to different regions in order to broaden their knowledge of companies and markets. This increases the team's knowledge of the global portfolio and helps each analyst to view companies in their global context. As well as improving the understanding of the overall construction of the portfolio, this increases the scrutiny given to each investment decision.
- **Flexible process** – the investment process relies on local analysts appraising opportunities using local market knowledge. This is vital, as global property markets are not homogeneous and the valuation and risk-assessment process needs to be tailored to each market. The disciplined process results in analysts being challenged on their assumptions, helping to ensure consistency in determining risk and valuation scores across regions.
- **Team communication** – the team formally communicates on a weekly call primarily to consider changes to the portfolio. These calls provide the analysts with the opportunity to present and be challenged on the investment case for individual stocks. In addition, regular regional meetings are held and there is frequent communication among the team.
- **Company and market knowledge** – meeting management and understanding real estate markets is the backbone to the research process. In addition to the portfolio managers undertaking an extensive meeting schedule, analysts are encouraged to meet management teams and visit assets.

Current portfolio positioning

The portfolio was repositioned in October 2014 following shareholder approval of the change in strategy, with the managers re-focusing the portfolio on companies expected to deliver higher total returns. The repositioning entailed 80% of the portfolio being changed and, as a consequence, only

one of the top 10 holdings at 31 May 2015 (see Exhibit 1) featured in the top 10 a year earlier. Portfolio turnover was over 100% in 2014, with the majority of this as a result of the repositioning, and the manager would expect turnover to be below 40% pa in future with opportunities provided by market fluctuations having a greater influence than changes in the fundamentals of individual companies.

Similar to the previous investment approach, SGRE currently maintains a relatively concentrated portfolio of high conviction investments, holding 49 stocks at 31 May 2015 compared with 45 at 31 May 2014 but is now focused on total return as opposed to having an income target. The number of holdings is towards the higher end of the manager's 35 to 55 target range and further concentration of the portfolio is expected over time. The top 10 holdings represent 36.2% of the portfolio which is lower than 41.0% a year earlier and the remainder of the portfolio is more evenly spread. This is reflected by the top 20 holdings representing 58.9% of NAV at end December 2014 compared with 73.6% at end December 2013.

As shown in Exhibit 3, the diversified and retail sub-sectors account for close to half of the portfolio which is similar to a year earlier. The current portfolio is more diversified across the property sub-sectors than a year earlier, with notably reduced exposure to residential, no exposure to net leased and exposure added to self-storage and lodging/resorts.

Exhibit 3: Asset allocation as at 31 May 2015

	31 May 2015	31 May 2014	Change
Diversified	24.6	20	5
Retail	23.3	25	(2)
Office	16.0	17	(1)
Residential	12.1	22	(10)
Industrial	7.1	7	0
Self-storage	6.9	N/A	N/A
Healthcare	5.5	4	2
Lodging / Resorts	4.2	N/A	N/A
Net leased	0.0	4	(4)
Other assets & liabilities	(0.7)	2	(3)
Cash	1.0	N/A	N/A
	100.0	100	

Source: Schroder Global Real Estate Securities, Edison Investment Research

As shown in Exhibit 4, there has been a noticeable shift in the portfolio's geographic exposure compared with a year earlier. US exposure is similar, accounting for just over half of the portfolio, although Canada has been added, thus increasing North American exposure by one percentage point (pp) to 56%. Exposure to the Asia Pacific region has increased by 10pp to 28% with increased exposure to Hong Kong, Australia and Singapore outweighing the reduced exposure to Japan. While we do not have a detailed breakdown by country at 31 May 2014, there has been a clear overall reduction in exposure to continental Europe from 16% to 6%. Including the UK, European exposure has reduced by 12pp to 15%.

Exhibit 4: Portfolio geographic exposures as at 31 May 2015

	Portfolio weight 31 May 2015 (%)	Portfolio weight 31 May 2014 (%)	Change (%)	Index weight (%)	Trust active weight (%)	Trust weight/index weight
US	53.2	55	(2)	51.7	1.5	1.0
Japan	10.4	14	(4)	11.9	(1.5)	0.9
UK	9.3	11	(2)	6.7	2.6	1.4
Hong Kong	8.3	0	8	7.7	0.6	1.1
Australia	7.9	4	4	6.0	1.9	1.3
France	3.6	N/A	N/A	1.5	2.1	2.4
Canada	3.2	0	3	3.0	0.2	1.1
Singapore	1.7	0	2	3.1	1.7	0.5
Switzerland	1.5	N/A	N/A	0.9	0.6	1.7
Sweden	0.9	N/A	N/A	1.0	(0.1)	0.9
Other	0.0	16	N/A	6.5	N/A	N/A
	100.0	100		100.0		

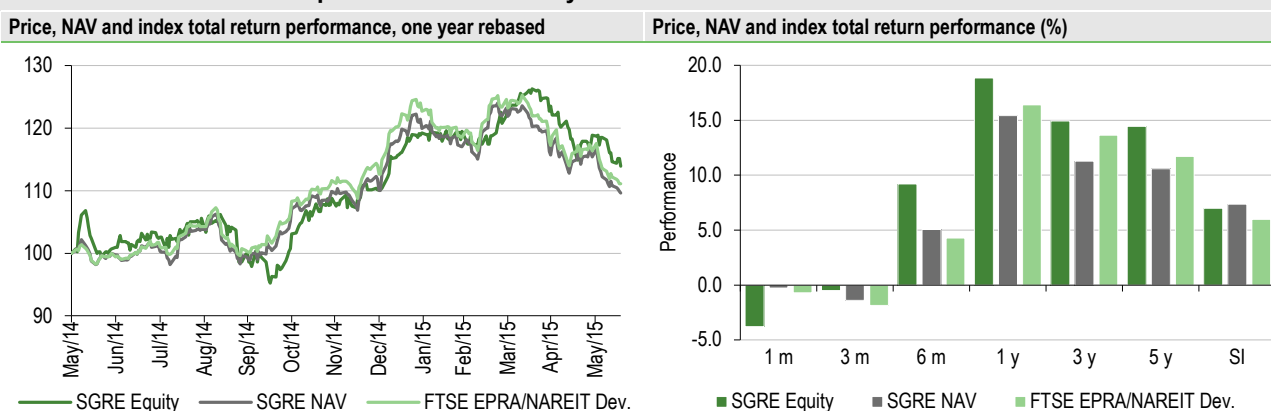
Source: Schroder Global Real Estate Securities, Edison Investment Research. Note: *Other portfolio exposure at 31 May 2014 comprised 16% exposure to continental Europe.

Performance: Ahead of index since inception

As illustrated in Exhibit 5, SGRE's NAV total return performance has been similar to the FTSE EPRA/NAREIT Developed index (adopted as a comparative index in October 2014) over one year with the change of manager, amendment to the investment objective and consequent repositioning of the portfolio in October 2014 not leading to any noticeable dislocation in performance. Over the seven months that the new investment strategy has been effective, performance has been marginally ahead of the index compared with marginal underperformance over the six months prior to the change. As shown in Exhibit 6, SGRE's NAV total return has modestly underperformed the FTSE EPRA/NAREIT Developed index over three and five years while performing in line over the period since the fund's inception in 2006. Relative to the FTSE All-Share index, SGRE has outperformed over one year and since inception while underperforming over three and five years, largely reflecting the FTSE EPRA/NAREIT Developed index's stronger performance than the FTSE All-Share index over all time periods shown.

While historical performance may be considered less relevant given the recent change in the investment approach, it does provide a useful context for the recent changes made by the board. Exhibit 7 illustrates SGRE's outperformance of the index leading up to and during the financial crisis, which may in part be attributable to the component of unquoted securities held in the portfolio. From mid-2009 to mid-2011, relative performance was comparatively flat although there was an uptick in mid-2011. This was followed by a period of modest but steady underperformance from September 2011 to September 2013. Subsequent performance has been relatively flat compared with the index although absolute performance has been strong (+30% NAV total return).

Exhibit 5: Investment trust performance to 31 May 2015



Source: Thomson Datastream, Edison Investment Research. Note: Index performance is sterling adjusted. Three and five-year and since inception (SI) performance figures annualised. SGRE inception date is 31 May 2006.

Exhibit 6: Share price and NAV total return performance, versus indices (percentage points)

	One month	Three months	Six months	One year	Three years	Five years	Since inception
Price relative to FTSE EPRA/NAREIT Dev.	(3.1)	1.4	4.7	2.1	3.5	12.7	(7.7)
NAV relative to FTSE EPRA/NAREIT Dev.	0.5	0.5	0.7	(0.8)	(6.0)	(5.0)	0.2
Price relative to S&P Global Property	(2.9)	(0.7)	3.4	1.0	2.3	12.2	(9.6)
NAV relative to S&P Global Property	0.7	(1.5)	(0.6)	(1.9)	(7.1)	(5.5)	(1.9)
Price relative to FTSE All-Share	(5.1)	(3.1)	1.5	10.6	(0.2)	16.4	(1.2)
NAV relative to FTSE All-Share	(1.6)	(4.0)	(2.3)	7.4	(9.4)	(1.9)	7.2

Source: Thomson Datastream, Edison Investment Research. Note: Data to end-May 2015, SGRE inception date is 31 May 2006, geometric calculation.

Exhibit 7: NAV total return performance relative to index since inception



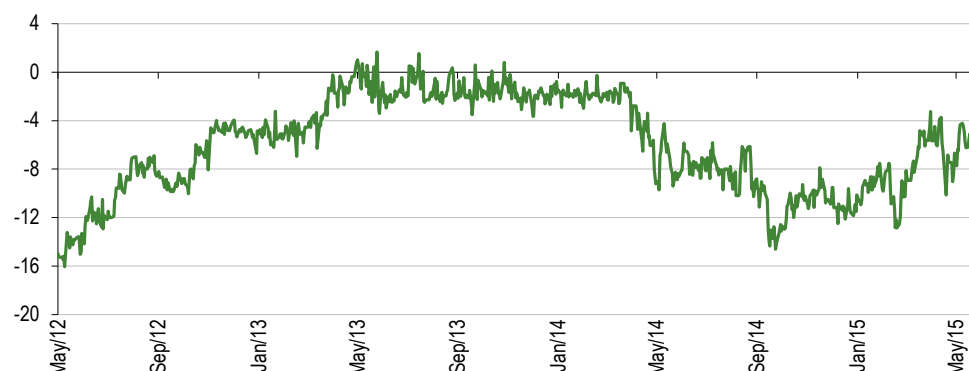
Source: Schroder Global Real Estate Securities, Thomson Datastream, Edison Investment Research

Discount: Recent narrowing

SGRE has authority to repurchase up to 14.99% of its issued share capital for cancellation or to hold in treasury, allowing share buy backs at the board's discretion aiming to reduce the level or volatility of the discount. The board believes it is important to have the ability to issue shares should the shares trade at premium to NAV and SGRE has authority (renewed annually) to allot up to 9.9% of the issued share capital at a price equal to or exceeding the prevailing NAV per share.

As illustrated in Exhibit 8, SGRE's share price has moved between a 16% discount to NAV (including income) and a 2% premium over the last three years. The discount narrowed from 16% in June 2012 to 5% in December 2012 as the board implemented a number of initiatives aimed at addressing the level of discount. From April 2013, the discount control mechanism was tightened to repurchase shares when the discount moved wider than 2%, rather than 5%. In April 2014, SGRE suspended the discount control mechanism while its appropriateness was discussed with the new investment manager, leading to the discount widening over the following six months. In October 2014, alongside the amendment to the investment objective, the discount control policy was formally discontinued in order to create a stable platform for investment. Although not following a smooth path, the discount has subsequently narrowed from 15% to its current level of 6%.

Exhibit 8: Share price premium/(discount) to NAV (including income) over three years (%)



Source: Thomson Datastream, Edison Investment Research

Capital structure and fees

SGRE has 48.8m shares in issue with a further 5.1m shares held in treasury. Although there have been no share buybacks since April 2014, 7.8m shares (12.8% of the shares in issue) were repurchased and 8.2m shares were cancelled in 2014. In total, 51m of the 100m previously outstanding shares were repurchased between 2011 and 2014.

Although gearing is permitted up to 25% of net assets, having reviewed the inherent gearing due to the leverage employed by portfolio companies, the board believes that, at the current time, introducing an element of gearing is not necessary to achieve SGRE's objectives. In May 2015, SGRE closed its £15m overdraft facility and held a 1.0% net cash position at the month-end.

SGRE's investment manager up to July 2014, CBRE Clarion Securities was paid a management fee of 1.0% pa of NAV. In addition an annual performance fee was payable based on 10% of NAV total returns in excess of an 8% pa hurdle rate. Schroder Real Estate Investment Management (SREIM; formerly Schroder Property Investment Management), appointed as investment manager in July 2014, is paid a management fee of 0.85% pa of NAV, subject to a minimum of £550,000 (0.89% of NAV at 31 December 2014) for the 12-month period from July 2014. No performance fee is payable to SREIM. For FY14, management fees totalled £608,000 with no performance fees payable and ongoing charges were 2.10%.

Dividend policy

SGRE's policy is that dividends will not be paid unless they are substantially covered by income. Following the amendment of SGRE's investment objective in October 2014 to focus on total return, rather than targeting a higher income return, the dividend was reduced to a level supported by expected net portfolio income and believed to provide scope for a progressive dividend over the medium term. The quarterly dividend was reduced to 0.375p (from 1.05p) from the third quarter of 2014 and maintained at this level for the final quarter of 2014 as well as the first quarter of 2015. This reduction resulted in the total dividend for 2014 declining 32.1% to 2.85p per share from 4.20p in 2013. While the 2014 total dividend payment represents a 2.4% yield, the prospective yield based on the current dividend level is 1.2%.

Peer group comparison

Exhibit 9 shows a comparison of SGRE to a selected peer group of closed and open-ended funds primarily focused on global listed property securities. Although the change of manager and investment strategy in 2014 makes historical comparisons over longer time periods of less relevance, we include these for reference, and we also show the only other constituent of the AIC Property Securities sector, TR Property, which is focused on Europe and therefore not a direct comparator. We include two US-listed closed-ended funds with a similar geographic exposure. Open-ended peers comprise funds over £100m in size from the IMA Property sector. SGRE's NAV total return is ahead of the US-listed closed-ended peer average over one year although lower over three and five years. Compared with open-ended peers, SGRE's NAV total return is modestly lower over one, three and five years. In terms of risk-adjusted returns, SGRE's Sharpe ratios are higher than US-listed closed-ended peers over one year and lower over three years. SGRE's discount is narrower than US-listed closed-ended peers and, with no debt, its gearing is modestly lower. SGRE's historic dividend yield is similar to peers while its 1.2% prospective yield is notably lower. SGRE's ongoing charge is higher than closed and open-ended peers, which reflects the current size of the fund.

Exhibit 9: Selected closed and open-ended real estate securities peers as at 18 June 2015

% unless stated	Market cap/fund size £m	NAV TR 1 Year	NAV TR 3 Year	NAV TR 5 Year	Sharpe 1y (NAV)	Sharpe 3y (NAV)	Discount (ex-par)	Ongoing charge	Perf fee	Net gearing	Historic dividend yield (%)
Schroder Global Real Estate	58.3	10.5	29.0	51.4	1.0	0.8	(4.6)	2.10	No	100	2.4
TR Property	931.3	16.8	87.6	108.2	1.4	2.0	2.5	0.76	Yes	114	2.6
Average	494.8	13.7	58.3	79.8	1.2	1.4	(1.1)	1.43		107	2.5
Non UK-listed closed-ended funds											
Alpine Global Premier Property	364.4	6.7	40.3	48.0	0.5	1.2	(12.1)	1.23	No	102	3.1
CBRE Clarion Global Real Est I	608.6	9.0	30.2	60.7	0.3	0.9	(14.4)	1.06	No	110	2.0
Average	486.5	7.8	35.2	54.4	0.4	1.0	(13.3)	1.15		106	2.6
IMA Property sector open-ended funds											
BlackRock Global Property Tracker	778.9	10.2	32.0					0.58			
Fidelity Global Property	231.2	14.6	37.4	54.3				1.74			
First State Global Property Securities	239.1	15.3	33.0	59.7				1.64			
Henderson Horizon - Global Property	447.3	8.2	25.3	42.4				1.97			
HSBC Open Global Property	175.9	9.8	31.2	45.2				2.03			
Schroder Global Property Securities	623.2	9.5						1.67			
SWIP MM Global Real Estate	448.2	11.4	33.2	49.8				1.87			
Standard Life Global REIT	147.4	9.0	42.1	58.9				1.65			
Average	386.4	11.0	33.4	51.7				1.64			

Source: Morningstar, Edison Investment Research. Note: TR=total return. Sharpe ratio is a measure of risk-adjusted return. The ratios shown are calculated by Morningstar for the past 12- and 36-month periods by dividing a fund's annualised excess returns over the risk-free rate by its annualised standard deviation. Net gearing is total assets less cash and equivalents as a percentage of net assets.

The board

The board comprises four non-executive directors, all of whom are considered independent. Chairman Crispian Collins (appointed April 2006) was formerly Vice Chairman, UBS Global Asset Management and was a founding sponsor of the Phillips & Drew property team. Richard Saunders (appointed April 2006) is a Member of Core Plus Properties, a private real estate investment company which owns and manages property in the US. Richard Sutton (appointed April 2006) is a member of the bar of the US Supreme Court and the American Law Institute. He was considered not to be independent prior to 2 July 2014 as he is a trustee of the CBRE Clarion Global Real Estate Income Fund, managed by CBRE Clarion Securities, SGRE's previous investment manager. Christopher Legge (appointed January 2015) has over 25 years' experience in the financial services industry and currently holds a number of directorships in the financial sector. He replaced Trevor Ash who retired in January 2015 having served on the board since the fund's launch.

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