

Assessment of Value Report

April 2020



Schroders

Chairman's letter

Our aim is simple - to help our clients plan for the future with ideas and investments built to stand the test of time.

I've worked at Schroders through all types of market conditions. It means I have seen first-hand how the company's deeply-ingrained culture leads us to the right decisions, regardless of how tough the environment gets.

We always focus on doing the right thing for our clients, but also for our people and for wider society. It's about delivering positive outcomes for all.

As part of this continued commitment to clients, we are publishing our first Assessment of Value Report. This follows new reporting obligations from our regulator, the Financial Conduct Authority (FCA), designed to strengthen fund governance and transparency. Companies such as ours, known as an Authorised Fund Manager (AFM), must consider robustly and in detail whether we are delivering value to our investors across a range of areas in an annual, publically available report.

The data for this report was collected at the end of 2019. Since then, a lot has changed. As I write this statement in April 2020, we are in the midst of an unprecedented period socially and economically. The disruption caused by the spread of Covid-19 means the year ahead will be challenging for all of us. At such a time it is as important as ever that we ensure we are delivering value to our investors. This is our primary objective and we fully support the FCA's initiative.

We hope this report will help promote enhanced transparency, governance and outcomes for all investors, ultimately strengthening trust in the asset management industry.

We have given our approach to producing this report a great deal of thought. We believe the result is a rigorous process for assessing value. Naturally, it considers all the relevant information and data investors need. We have also sought to introduce governance structures that make sure we're measuring value in the best possible way. We have worked with third-parties to ensure our report is robust and clear for our investors to understand.

As well as using external experts to validate our approach, we tested how we report our findings with private investors and advisers. We wanted to make sure the structure and content of this report made sense to you.

There are always opportunities for improvement and it is important that we are not complacent. This report identifies that certain funds are not demonstrating value consistently, particularly in the Performance area. Where this is the case, we have completed a further review and shared the measures that we have taken, or plan to take, to remedy the issues we've identified.

One significant change is that we are planning to introduce an all-in fee structure. What's more, there will be savings for our investors resulting from our other implemented and planned measures. These include:

1. The conversion of nearly 26,000 investors to cheaper share classes
2. Fee reductions for specific funds
3. The planned introduction of scale discounts for funds larger than £1 billion, across all retail share classes

As at the end of 2019, we estimated such savings to be £8 million per year.

More details on each of these are provided in the relevant sections in this report.

We are proud of our long history of adapting to meet the challenges of the times and keeping our focus on delivering value to our clients at all times. In these uncertain markets, we are going to see greater opportunities for active managers like us to differentiate and demonstrate value to our clients.

We hope this report reassures and empowers our clients, providing a transparent and clear breakdown of the overall value that our funds provide.




James Rainbow
Chairman of Schroder
Unit Trusts Ltd

Introduction

The combined report of all funds in scope for this assessment can be found [here](#)

Throughout this report, the Schroder Unit Trust Limited (SUTL) Board, will be referred to as 'we'.

Who is the report designed for?

The annual Assessment of Value report is aimed at individuals who invest in our UK-domiciled fund ranges or their advisers. It outlines each fund's assessment and concludes on whether we believe that we have demonstrated value.

How should you use it?

We recommend that you take time to read the 'Seven areas' section to understand how we have made our assessment, which has been conducted using data as at 31 December 2019.

You should review the reports for each fund that you are invested in and decide whether you feel the product is still suitable for your needs and delivering what you expected from it.

The report complements other fund documentation such as the Factsheet and the Key Investor Information Document (KIID). If you wish to see the underlying performance data in conjunction with this document please refer to the relevant fund's latest factsheet or KIID (if applicable) or otherwise to the fund's most recent financial report. A link to these can be found at the bottom of each fund's report.

What will it tell you?

The FCA has asked us to look at seven specific areas when assessing the value we deliver to our investors:

1. **Performance** – has the fund performed in line with expectations?
2. **Quality of service** – are we meeting expectations on the service we deliver?
3. **General costs of the authorised fund manager** – are the fees charged to the fund reasonable and appropriate?
4. **Comparable market rates** – how do our fees compare against competitors?
5. **Economies of scale** – do funds enjoy cost savings as they grow?
6. **Comparable services** – how do the fees we charge your fund compare with what we charge clients for similar products?
7. **Classes of shares or units** – are you in the most appropriate type of share or unit?

Please follow the link [here](#) to find the detail of the regulation in COLL 6.6.21.

How we determined the overall value delivered by a fund?

Each area is considered separately for every fund and is given equal weighting. This contributes to an overall assessment as to whether or not we believe that we have delivered value to our clients. This incorporates both qualitative information as well as quantitative data.

How have we produced the report?

The Product Governance Team at Schroders is responsible for the delivery of the Assessment of Value report. It validated its methodology for the Assessment of Value with support from an independent consultancy to ensure its robustness and impartiality. Once the assessment was completed, the findings were presented to several governing bodies, the Product Governance Committee and the SUTL board, who reviewed and validated the conclusions drawn.

It is the responsibility of the SUTL board of directors to consider the outcomes of these assessments and to ensure that they are clear and fair. The board, which includes a number of Independent Non-Executive Directors (INEDs), is responsible for representing the best interests of investors and challenging the approach taken where necessary.

In this report we communicate if we have delivered value or, if not, where we need to improve and what changes we are proposing.

What do the icons used throughout the report represent?

We have used iconography to help you understand the outcome of our assessment of each area.



Where an area has this icon, we believe that the fund is demonstrating value in that area.



Where an area has this icon we have concluded that the fund is demonstrating value in that area. However, our initial quantitative review indicated that further qualitative analysis was required before a conclusion could be drawn. We believe the combination of these reviews ensures you are provided with a comprehensive conclusion.



Where an area has this icon, we recognise that the fund is not demonstrating value in that area consistently. We have completed a further review and shared or will shortly be sharing the outcomes with you.

What to do if you have any questions

You can contact us on investorservices@schroders.com if you have any further questions. If you have an adviser you may wish to discuss your questions with them.

Our approach to assessing value: the seven areas

For each of the seven areas, we have considered the following detail as part of our assessment

1 Performance



We think clients can reasonably expect funds to meet their investment objectives, albeit with the knowledge that they are not guaranteed. To give us an indication of how well a fund is doing this, we assess the returns of each share class over the performance period, which is the length of time over which we expect the fund to deliver its investment objective. If we've given a range of time, then for the purposes of this report we look at the upper end of the range.

For example, if the range is three-to-five years, we assess the delivery of the investment objective over five years. We acknowledge that sometimes funds will underperform their investment objective given their particular investment style. We consider a number of measures over that time period to make a judgement on whether or not the investment objectives are being met, including specific levels of income or volatility (the fluctuation of performance).

2 Quality of service



Several elements contribute to the service we offer all of our clients. We assess whether we are delivering each of these well enough to create value for our clients.

We assess whether key aspects of fund operations have met or exceeded the rigorous internal and external standards that have been set for them. These standards, known as Key Performance Indicators (KPIs), enable Schroders to provide both accurate and timely financial reporting to both our clients and the regulators.

The strength of our investment process for each fund is validated by several independent external rating agencies. The Fitch Investment Management Quality Rating (IMQR) considers our Investment Process, Investment Resources, Risk Management, Investment Performance

and Company and Client Servicing. It rates the service that Schroders provides as 'Excellent'. Additionally, in 2019 Schroders was one of four investment companies to be awarded the top rating by investment research firm Square Mile in its ESG Integration and Responsibility ratings.

We also review our own governance around liquidity and risk management to ensure that the policies and procedures we have in place are robust and fit for purpose.

The client experience that we provide is evaluated internally, using internal and external metrics provided from surveys such as the Citywire Service Study. This provides us with a holistic view of the client experience.

3 General costs of authorised fund manager



We review every cost component of the Ongoing Charges Figure (OCF) at a share class level. This includes a detailed assessment of our management, administration and 'other' costs (see the glossary for a definition of the OCF). We then compare these costs against what we charge our investors. This is to ensure that they are appropriate, while at the same allowing us to:

- Remain a well-capitalised business
- Continue to operate during stress scenarios
- Continue to innovate and develop new products

Schroders has decided to move to an "all-in fee" to make charging structures simpler and easier to understand. This means that clients will pay a single fee which will be set with reference to the OCF. We will communicate the timelines for delivery as soon as possible.

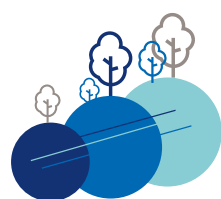
4 | Comparable market rates



We assess the amount we charge our investors at a share class level by comparing the price of our funds against the price of peers in the relevant Investment Association (IA) Sector. As the investment approach of funds in an IA Sector can vary, we also assess each fund against a customised peer group.

The funds in the customised peer groups are selected by an independent third party on the basis that they are more directly comparable than other funds in the IA Sector.

5 | Economies of scale



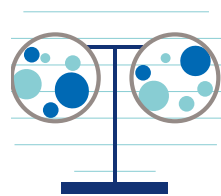
We assess whether there are potential economies of scale in the fund and whether or not these have been achieved in practice. If that is the case, we then consider whether that benefit is being reflected in lower charges for clients. Every fund can, in theory, benefit from economies of scale but whether or not your fund does will depend on the overall fund size.

A fund can generate economies of scale as it grows. This is because we are able to manage larger funds more efficiently, meaning that our costs of managing the fund decrease as the size of the fund grows. We have determined that funds

generally generate meaningful economies of scale when a fund grows to assets under management of £1 billion, although this can vary depending on the type of investments that we manage for you.

We have therefore determined that it is appropriate that we share some of these savings with you. This means that we will soon be implementing scale discounts in retail share classes for every fund that is larger than £1 billion.

6 | Comparable services



We manage money for a range of different clients all over the world including individuals, charities, pension schemes and large institutions. Some of that money is managed in the same way as your fund. Where this is the case, we have compared different types of clients and the services that they receive in relation to the fees that we charge.

This is to ensure they are reasonable and appropriate. If we identify that there are disparities which may be deemed to not be reasonable and appropriate, we will be making changes to fees.

7 | Classes of shares or units



We compare the value we deliver across different classes of shares (or units) in your fund.

What are share classes?

For each of our funds, we issue different types of shares (or units if your fund is a unit trust). These are called 'share classes' or 'unit classes' and can differ for various reasons. For example, you could hold a share class that was set up specifically so that you could buy it through an adviser.

How do you find what share class you are invested in?

Your annual statement will highlight the share class you are invested in.

How do we assess share class charges?

We review the charges across all share classes or unit classes in your fund. We look at all the share classes or unit classes that serve broadly the same purpose and compare those charges. Our aim is that our clients are invested in the share class that is the best price for them, given how they are investing and the features they are looking for. We will keep reviewing the charges on all of our share classes whenever we launch new funds or create new share classes.

What have we done to see that investors are in the right share class?

We have converted nearly 26,000 investors into lower-priced share classes.




The assessment has been completed using data as at 31 December 2019

Fund Name:

Schroder Global Cities Real Estate Income

Assessment outcomes

-  1. Performance
-  2. Quality of service
-  3. General costs of authorised manager
-  4. Comparable market rates
-  5. Economies of scale
-  6. Comparable services
-  7. Classes of shares or units

Key:  Demonstrating value  Completed a further review, demonstrating value
 Completed a further review, not demonstrating value consistently

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 3 to 5 year period by investing globally in equities of real estate companies worldwide that offer regular dividend payments. This cannot be guaranteed and your capital is at risk.

Overall conclusion

Taking into account all seven areas included in the assessment of value, we believe that the fund is demonstrating value overall. We have summarised our assessment of each area as it relates to this fund separately below.

1 Performance

We have assessed whether the fund has delivered its investment objective over the performance period of five years. Over that time period the fund has delivered on its investment objective. We have concluded that, in terms of performance, the fund is delivering value. For more detail on how we completed this assessment, please refer to the 'Seven areas' section in the front of this report.

2 Quality of service

In reviewing the quality of the service we provide our clients, we have assessed key service areas relating to our fund operations, our investment process and the quality of our client experience. We also looked at our liquidity management process. We concluded that we have a mature and effective framework for the oversight and reporting of liquidity risks in the funds we manage. Through all our metrics we have concluded that, in terms of quality of service, we provide value to our clients. For more detail on how we completed this assessment, please refer to the 'Seven areas' section in the front of this report.

3 General costs of authorised fund manager

We reviewed every cost component of the Ongoing Charges Figure (OCF) at a share class level. We concluded that in relation to each charge, the costs of providing the service to which the charge relates are reasonable and appropriate. For more detail on how we completed this assessment, please refer to the 'Seven areas' section in the front of this report.

4 | Comparable market rates 

Our assessment found that this fund is lower-priced than the majority of its peers, and is therefore demonstrating value to our clients by being competitively priced.

5 | Economies of scale 

The fund you invest in is not large enough (defined as fund assets under management greater than £1 billion) to realise economies of scale. Therefore it does not benefit from meaningful cost savings achieved from size. However, as it may be able to attain them as it grows, we will continue to assess this.

6 | Comparable services 

We have reviewed the fee rates of funds from Schroder Unit Trusts Limited (SUTL) against those of other non-UK domiciled funds that Schroders manages. We also compared them against funds run exclusively for individual clients (known as segregated mandates) that use the same investment strategy. However, this fund does not have an equivalent segregated mandate or another Schroders fund which is comparable.

7 | Classes of shares or units 

We have looked at charges across all of the share and unit classes in our funds. Find your share class in the list below to see whether we have made any changes to your holding:

- If you are invested in the A Share Class and have ongoing advice, we are not making any change to the charges as these are set up to pay your adviser an annual commission. This share class is the most cost effective share class we offer with that feature.

- If you held A Shares and you invested directly with Schroders, you have already been moved to the Z Share Class and are being charged lower fees as a result. Controls have been implemented to ensure that retail clients can no longer invest in the A share class.

If you invest in the A Share Class but no longer have an adviser, please contact us at investorservices@schroders.com to discuss your options as we can move you to a cheaper share class.

Glossary of Terms for Assessment of Value reports

Absolute return

This is an asset's standalone return (gain or loss) over time. It is not being compared to anything else such as a benchmark or another asset.

All-in fee

The all in fee provides investors with a single number for how much they are paying Schroders to manage their fund. This all in fee replaces all the components that have historically made up the costs of a fund, which includes the annual management charge (AMC), the administration charge and other operating costs.

Asset class

Investments are divided up into groups that contain similar types of assets. The main investment asset classes are equities (also known as shares or stocks), bonds and cash. Non-traditional asset classes are known as alternative investments.

AMC (annual management charge)

This is the yearly fee an investment manager charges to manage a fund. It is generally a percentage of the assets of the fund, for example 0.6% of the fund's assets per annum. The AMC is automatically deducted from the assets of the fund.

Authorised Fund Manager

The authorised fund manager (AFM) is responsible for the overall management of the fund, investing money on behalf of clients. An authorised investment fund is one that is authorised and regulated by the UK financial regulator, the FCA. Please also see Financial Conduct Authority entry.

Benchmark

A benchmark is typically an index or a market average against which an investment fund's performance is measured.

Bond

A bond is a way for governments and companies (the issuers of the bond) to borrow money for a certain amount of time. A typical arrangement would be in exchange for an upfront payment from an investor, the issuer will make periodic interest payments to the investor and then repay the initial investment amount at the end of the bond's term (its maturity).

Business cycle

The business cycle is also referred to as the "economic cycle". Essentially it describes how business activity goes up and down over time. There are four stages of the business or economic cycle: expansion, slowdown, recession and recovery.

CPI (Consumer Price Index)

Please also see the entry for inflation.

The Consumer Price Index (CPI) measures how much prices of consumer goods and services change over a period of time. For example, if CPI is 2.5% for the 12 months ending January 2020, this means that on average, the price of consumer goods will be about 2.5% higher than they were in January 2019.

Domicile (e.g. a UK-domiciled fund)

A fund's domicile is basically its country of residence. It determines how a fund is to be treated from a tax perspective much as your domicile (i.e. your permanent home) determines what tax legislation applies to you. Schroders has a range of unit trust funds that are UK-domiciled while the Schroder International Selection Fund range is domiciled in Luxembourg.

Economies of scale

"Economies of scale" describes how it becomes cheaper to produce something when you are producing large quantities of it. Effectively, production becomes more economical because you can divide the cost over a greater number of units.

Economic cycle

Also referred to as the "business cycle". Essentially this describes how activity goes up and down over time. There are four stages of the business or economic cycle: expansion, slowdown, recession and recovery.

Emerging markets

Emerging markets are those countries that have rapidly growing, developing economies and may still be going through the process of industrialisation. This is compared to developed markets which have already undergone this process and are considered to be already economically advanced.

Equities

Also known as “shares” or “stocks”, this represents a share in the ownership of a company.

FCA (Financial Conduct Authority)

The FCA regulates the UK’s financial markets. Its objective is to make financial markets work well – for individuals, for business and for the economy as a whole. More information can be found [here](#).

Fund fair value assessments

This is a new FCA requirement which requires the managers of UK funds to publish reports demonstrating how they are providing value to investors. The FCA has done this in order to ensure that fund managers compete on the value they deliver and act in the best interests of the investors who entrust them with their savings.

Inflation

A measure of the increase in prices of goods and services over time.

KIID (Key Investor Information Document)

A document that summarises a fund’s investment objective, key risks, ongoing charges figure (see OCF) and past performance so that it is easy to compare features across different funds. It is required by EU law.

Liquidity

If it is quick and easy to convert an asset into cash (i.e. to sell it), then it is referred to as a “liquid asset”. If an asset is “illiquid”, it takes a longer time to sell. If you think about selling your home, this could take some time.

OCF (ongoing charges figure)

Please also see TER (total expense ratio). The OCF is made up of the annual management charge (AMC), the administration charge and other operating costs such as the fees that the fund pays to the trustee (or depository), custodian, auditor and regulator.

Peer group

A group of funds that may be compared with one another, often for performance purposes. A peer group will usually be based on the funds’ investment scope, for example, US equity funds.

Quantitative analysis

Quantitative is often better understood as “numerical”. Typically, it is the use of numbers (or complex mathematical and statistical modelling methods) to make sense of an investment. This is compared to qualitative analysis, which is about using subjective judgment and information that cannot be represented by numbers (such as a company’s culture) to evaluate an investment.

Quantitative Easing (QE)

Quantitative Easing (QE) is a tool central banks can use to stimulate an economy by increasing the supply of money. Technically, it involves the central bank printing new money and using this to buy assets from the financial market. This results in more money being in circulation, higher asset prices and lower interest rates (prices and interest rates tend to move in the opposite direction). This combination makes it more attractive for people to invest, borrow and spend more, driving economic growth. This technique has, in recent years, been used by the European Central Bank, the US Federal Reserve and the Bank of England.

Schroder Investment Management (Schroders)

Schroders is a global investment manager. It actively manages investments for a wide range of institutions and individuals, to help them meet their financial goals.

Share class

Share classes are a way to differentiate between different types of shares. For companies, this may mean that some shares have voting rights while others do not. Within a fund, the different share classes may represent different ways of paying the investor the income from the fund, different fees and expenses or different base currencies. For example, a fund will often have an “accumulation” share class and an “income” share class. With the former, any income produced will be automatically reinvested back into the fund (more shares will be bought in the fund). With the income share class, income can either be received as a regular payment or reinvested.

Supranational (bond)

In non-finance terms, “supra” means “beyond the limits of”. So it makes sense that “supranational” refers to an entity which is outside the scope of a single national government. It is usually used in the context of bonds; a supranational bond is one that is issued by an institution such as the World Bank to raise finance. Essentially, a supranational entity is a central body made up of a group of countries which allows for a greater sphere of influence beyond national boundaries.

TER (total expense ratio)

Following the introduction of KIIDs, TERs have been replaced with OCFs. Please see the OCF definition provided above.

Total return

The total return of an investment is the combination of any capital appreciation (or depreciation) plus any income from interest or dividends. It is measured over a set period, and is given as a percentage of the value of the investment at the start of that period.

Unit class

Please refer to share class above.

Unit trust

A type of fund which is structured as a trust. It is split up into equal portions called “units” which belong to the unitholder. The money paid for the units goes into a pool with other investors’ money which an investment manager uses to buy financial instruments on behalf of the unitholders, with the aim of generating a return for them.

Value (investment style)

Value investing is a style of investing that involves buying securities that appear undervalued in the belief that over time, the asset’s relatively low price will rise to more accurately reflect the intrinsic value of the business.

Volatility

Volatility measures the fluctuations in a security’s price. For example, a highly volatile share experiences greater changes in price than other investments. High volatility is taken as an indication of higher risk.

Yield

A measure of the income return earned on an investment. In the case of a share, the yield is the annual dividend payment expressed as a percentage of the market price of the share. For property, it is the rental income as a percentage of the capital value. For bonds, the yield is the annual interest as a percentage of the current market price.



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