Schroder Real Estate (SREI)

SREI builds the scale to be a leading diversified REIT.

Alan Ray
alan@keplerpartners.com

Summary and performance

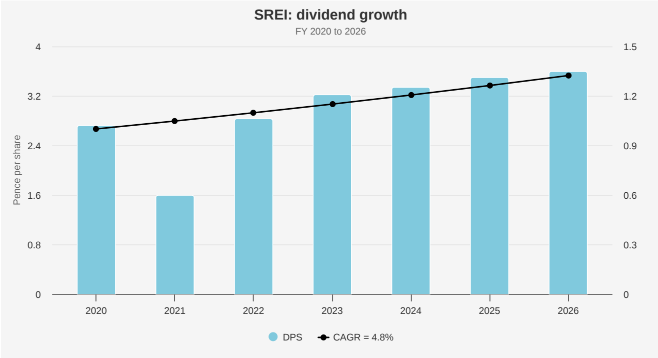
In September 2026, and with the overwhelming support of shareholders, **Picton Property Income (PCTN)** shares were exchanged for those in two other REITs, **LondonMetric Property (LMP)** and **Schroder Real Estate (SREI)**, with PCTN's portfolio of assets divided between the two. Here we give a brief overview of the latter trust through the lens of a former shareholder of PCTN.

From the perspective of 'what makes this investment tick', the change from PCTN to SREI isn't that great, because both are UK diversified commercial property portfolios that primarily focus on the key sectors of industrials, offices and retail. As part of the transaction, just over half of PCTN's portfolio transfers to SREI and so former PCTN shareholders will be exposed to the performance of many of the same assets as they were before. So, from the fundamental perspective of an investment aiming to give long-term performance by investing in UK commercial property, PCTN shareholders will be on familiar territory. That said, there are several more subtle differences that are worth highlighting.

The first is that SREI has a long track record of outperforming the MSCI UK Balanced Portfolios Quarterly index by targeting higher-yielding properties. This means SREI has an appreciably higher yield than PCTN, currently just over 8%. It also has a very good record of growing the dividend.

Further below we summarise SREI's property portfolio performance against the benchmark, but before we come to that, the chart below shows SREI's dividend per share for the financial years from 31/03/2020 to 31/03/2026. Like other REITs, SREI reduced its dividend due to the pandemic and all the temporary uncertainty that was created about rental income, but looking across this period, SREI has grown its dividend at an annualised rate of almost 5%, with underlying earnings growth at 5.3% annualised. This is ahead of UK inflation, which annualised at about 4.5% across the same period, and this highlights the key role that commercial property plays as a long-term source of real returns. SREI's higher yield and a strong commitment to a progressive dividend are among its hallmarks.

DIVIDENDS



Source: SREI
Past performance is not a reliable indicator of future results

The table below shows how SREI's property portfolio has performed in total return terms against the benchmark. As ever, it's worth noting that the MSCI benchmark is a measure of the performance of a large sample of commercial property portfolios, so one can see it in part as a measure of the average performance of active managers, rather than as a truly passive index.

SREI PROPERTY PORTFOLIO PERFORMANCE

SECTOR	SREI 1Y (%)	SREI 3Y ANNUALISED (%)	SREI 5Y ANNUALISED (%)	BENCHMARK 1Y (%)	BENCHMARK 3Y ANNUALISED (%)	BENCHMARK 5Y ANNUALISED (%)
All	5.4	5.9	6.2	5.7	3.4	2.8
Industrial	8.5	8.8	10.3	6.4	6.6	6
Offices	-0.2	-1	-0.4	4.1	-1.8	-2.4
Retail	4.9	7.7	6.6	7.5	5.4	4.5
Other commercial	0.6	1.5	1.8	4.6	2.8	2.3

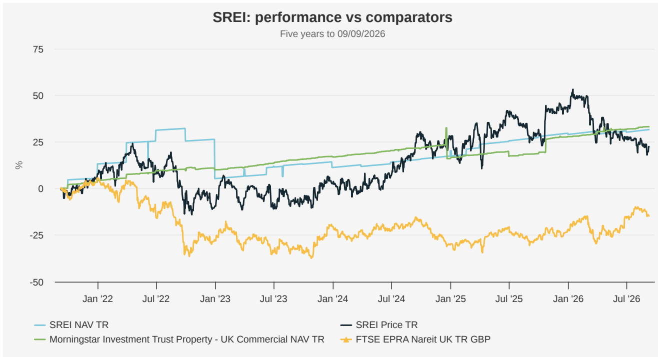
Source: Schroder Real Estate

Past performance is not a reliable indicator of future results

As the table shows, the strongest sector performance has come from Industrials and, like PCTN, this is SREI's largest sector exposure. Indeed, SREI's sector weightings before and after the PCTN transaction are broadly unchanged, with Industrials at 53%, Offices 25%, Retail Warehouses 13% and Retail and Other 9%. The combined portfolio has a gross asset value of approximately £850m.

SREI's NAV and share price total returns over the last five years are plotted below against Morningstar's UK Commercial Property peer group, as well as an index that shows the price performance of the UK's larger REITs not included in that peer group. SREI's performance is similar to its immediate peer group, but its NAV and share price total returns of 32% and 23% exceed the broader REIT index's -15%.

NAV AND SHARE PRICE TOTAL RETURN PERFORMANCE



Source: Morningstar

Past performance is not a reliable indicator of future results

Investment strategy and management

As noted, one of SREI's hallmarks is its approach to higher yielding assets. The other is an explicit strategy of improving the sustainability of its assets. In property terms, sustainability is far less subjective than it can be in other asset classes, with measurable outcomes such as more energy-efficient buildings. Efficient buildings with good HVAC (heating, ventilation and air conditioning) and lighting also tend to be better places to work, which generally results in higher tenant retention. The SREI management team has a carefully planned programme of expenditure on upgrading buildings to meet these standards and the results have shown a clear trend to higher rents, or a 'green premium', and better occupancy rates as a result.

In the next section we will look at how costs and management fees differ, but from the perspective of how the assets are managed the biggest change is that SREI is externally managed, whereas PCTN was internally managed, with all of the team employed directly by the trust. Schroders Capital is SREI's external manager who, with over £26bn of assets under management in property and 200 investment professionals, can bring a substantial amount of resources to bear.

SREI recently announced the appointment of Peter Lowe as successor to long-term fund manager Nick Montgomery. Nick has been involved in SREI from its inception and is Schroders Capital's global head of UK property, which means his expertise and knowledge will still be accessible. Peter will work alongside co-fund manager Bradley Biggins, who has worked on SREI since 2022 and has over 17 years of property and M&A experience, having joined Schroders in 2014.

Peter is a chartered surveyor with 23 years' experience, including six years managing UK-listed real estate investment companies. He is currently Head of UK Real Estate Investment at Schroders Capital, with responsibility for a pan-UK £2.5 billion diversified institutional mandate. Peter previously managed a listed REIT for Columbia Threadneedle which had a similar income focus to SREI and which generated strong long-term performance.

Charges

As already noted, a key difference between PCTN and SREI is that the former was an internally managed REIT with employees whereas SREI is externally managed in a manner very familiar to investment trust investors. Although as an internally managed REIT PCTN was not obliged to produce the familiar ongoing charges figure (OCF), its published EPRA cost ratio, 1.4% in the year to 31/03/2026, is a broadly similar metric. SREI's OCF for the year ending 31/03/2026 was 1.31% but in our view the revised fee structure set out below will likely result in lower costs.

From 01/10/2025, SREI's management fee was amended so that 50% will be charged on the lower of market cap or net assets, with the balance charged on net assets. Charging fees on market cap creates greater alignment between the manager and shareholders, with the manager seeing a reduction in fees if the trust trades at a discount.

The fee is tiered, with 0.8% charged on the first £500m, 0.7% between £500m and £1bn, and then 0.6% thereafter. As part of the combination with PCTN, the manager has agreed to waive 12 months' worth of fees in respect of the assets transferred from PCTN, with this waiver staggered over 24 months.

The fee also incorporates a small performance-related element. Subject to first, meeting certain ESG-related KPIs to the board's satisfaction and second, income exceeding the benchmark, the management fee will be increased by five basis points (0.05%). Conversely, should these criteria not be met, the fee will be reduced by the same percentage.

Gearing

One of SREI's other key advantages is that it has two tranches of low-cost long-term debt. These run to 2032 and 2039 and have an average interest rate of 2.5%. Following the combination with PCTN, SREI's gearing falls to approximately 32% LTV, which is inside the long-term target range of 25% to 35%. SREI's gearing is, as a result, slightly higher than PCTN's 24% (as at 31/03/2026) but, with lower-cost and longer-term debt, can still be considered conservative in a commercial property context.

Kepler View

Scale matters in property investing, and the result of this transaction, a portfolio of approximately £850m, provides that to both new and old SREI holders. SREI's revised fee structure should result in a further fall in costs and new shareholders also benefit from lower-cost gearing. Overall, this means a more efficient vehicle for all and one that gives management more options over the types and sizes of buildings it can add to the portfolio over time.

One of the arguments in favour of the internally managed structure that PCTN shareholders are familiar with is that there is more alignment between the executive team and shareholders than there is with an external manager, but we think the way the SREI management fee is calculated neutralises that argument.

Further, we think one of the strengths of an externally managed REIT like SREI is accessibility of data. It is much easier for a retail investor to look up the performance, discount and yield of SREI than it is for an internally managed REIT. SREI's discount, over 30%, is easy enough for anyone to find on, for example, the Association of Investment Companies' (AIC) website alongside performance and other metrics that compare it to similar REITs. Retail investors are an increasingly important part of many investment trust and REIT share registers and greater visibility alongside readily available data is such an important consideration that internally managed REITs often overlook. SREI's track record of earnings and dividend growth, its highly competitive fee structure and its new scale mean it is very well placed to become one of the leading UK diversified REITs and that discount we referred to above therefore looks like a very attractive opportunity.

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