
# Discovery Global Income Share Portfolio

## August 2022

The strategy follows a fundamental, bottom-up approach to investing in high quality companies where there is a gap between what we believe is the intrinsic value of a company and its share price. The strategy is concentrated, highly active, has a low turnover and a long term investment horizon. The strategy aims to generate a higher yield than its benchmark, MSCI World (Net Total Return), with lower volatility and some capital appreciation over a complete economic cycle.

Proprietary, bottom-up research is the key driver of our investment process and we seek to generate the vast majority of our alpha from our rigorous stock selection. We believe that a focus on quality is of utmost importance while managing a strategy with a long term investment horizon. We seek to invest in high quality companies with industry leading market shares, strong free cash flows, robust balance sheets, excellent managements and sustainable competitive advantages. As active managers, we seek companies where there is a gap between what we believe is the intrinsic value of a company and its share price. We also look beyond the next twelve months, conduct analysis using appropriate valuation metrics for each sector and look for underappreciated assets within a company. Due to our emphasis on quality, we expect the strategy to be resilient in down markets.

The strategy is managed by Goldman Sachs Asset Management’s Global Equity team, comprising eight Global Sector Leads, and led by the Head of International Developed Markets. We employ a team-based approach to investing and every stock that is selected for the portfolio is thoroughly discussed and debated among all the team members before being included. Our Global Sector Leads host regular sector calls with their Fundamental Equity counterparts based in local markets, allowing them to take a global view across their sector. We believe that this team based structure is efficient for stock selection and also ensures that the Lead Portfolio Manager, who has the final buy/sell authority, stays informed at all times.

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# Market Review

Global equities lost gains of the prior month in August, returning -4.18% (total returns in USD). Markets remained resilient during the first half, focusing on US economic data and corporate earnings. However, sentiment turned negative in the latter half driven by the rampant spread of COVID-19 in China, US-China-Taiwan tensions, and Jerome Powell's speech at Jackson Hole.

Corporate earnings for the second quarter proved to be stronger-than-expected at the aggregate level, fueling a short-lived market rally in the nascent stages of the month. Market concerns around the progression of earnings and the bottom-line impact of rising prices and persistent inflation remained high. Non-farm US payrolls continued to be on the uptick, which along with the release of CPI and PPI numbers stoked market expectations around the peaking of inflation. However, Jereme Powell's speech at Jackson Hole extinguished these hopes, highlighting the need to keep on top of inflation and setting expectations around the persistence of a high interest rate.

Nancy Pelosi's visit in Taiwan gave birth to new geopolitical tensions with the subsequent execution of military drill by China around the region straining US-China diplomatic relationships. Inflationary concerns in Europe continued to be at an all-time high with the aggressive monetary policy stance of ECB stoking fears about an economic slowdown in the region.

During the month, the Energy sector was the sole generator of positive returns with the Health Care and Information Technology sectors declining the most from overall returns.

# Performance Overview

- On a yield basis, the portfolio's current yield (gross of tax) of 3.5% in the trailing 1-year period is higher relative to the index yield of 2.1%. The Goldman Sachs Asset Management's Global Equity Income Strategy returned -3.34% in August, outperforming the MSCI World Index by 85 bps (gross of fees, USD).
- At the sector level our positioning in Energy contributed to total returns while our positioning in Information Technology and Health Care detracted the most from absolute returns.
- As of the most recent quarter end, the strategy has over $74mm in assets under management.

| Periods Ending 31-Aug-2022 | Global Equity Income Strategy (%) | MSCI World (%) | Excess Return (bps) |
|---|---|---|---|
| August 2022 | -3.34 | -4.18 | +85 |
| YTD 2022 | -12.97 | -17.78 | +481 |
| Trailing 1 year | -10.01 | -15.08 | +507 |

| | | | |
|---|---|---|---|
| Trailing 2 years | 6.72 | 4.98 | +174 |
| Trailing 3 years | 6.41 | 8.77 | -235 |

*Source: Goldman Sachs Asset Management. Inception Date: January 01, 2019. The returns are gross and do not reflect the deduction of investment advisory fees, which will reduce returns. Our investment advisory fees are described in Part 2 of our Form ADV. See additional disclosures.* ***Past performance does not guarantee future results, which may vary****. The holdings and/or allocations shown may not represent all of the portfolio's investments. Future investments may or may not be profitable.*

# Performance Commentary

Some of the top contributors and detractors for the month include:

- **BP (Contributor)** – BP, a British Oil and Gas company, contributed the most to absolute returns. BP saw solid returns over the month following its strong Q2 earnings release in which it beat expectations with reported profits of $8.5bn over the quarter and also announced a 10% increase to its quarterly dividend. BP continues to benefit from elevated oil and commodity prices and we continue to like its commitment to returning cash flows to shareholders.

- **Zurich Insurance (Contributor)** – Zurich Insurance, a Swiss Insurance company, posted positive returns over the month as it announced strong H1 profits as well an additional $1.9B in share buybacks. The company also noted that it was on track to beat all of its 2022 targets. Zurich Insurance continues to be a beneficiary of rising rates and rising inflation and we continue to like it as one of the most defensive names in its sector.

- **Microsoft (Detractor)** – Microsoft, an American Technology company, only slightly underperformed the market but was the largest detractor to absolute returns. The company fell ~6% over the last week of the month following Fed Chair Powell's comments at Jackson Hole. This sell-off was in line with the broader Nasdaq Index. We remain favorable on the company gives its execution capabilities and breadth of offerings.

- **Sanofi (Detractor)** – Sanofi, a French pharmaceutical company, sold off during the month and detracted from absolute returns. The company's shares fell following litigation threats towards popular heartburn medication Zantac, of which Sanofi has marketing rights to, as well as setbacks in its pipeline. We believe this sell-off may have been overdone and continue to like the name and its topline growth outlook driven by its drug, Dupixent.

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The following table provides a simplified example of the effect of management fees on portfolio returns. Assume a portfolio has a steady investment return, gross of fees, of 0.5% per month and total management fees of 0.05% per month of the market value of the portfolio on the last day of the month. Management fees are deducted from the market value of the portfolio on that day. There are no cash flows during the period. The table shows that, assuming all other factors remain constant, the difference increases due to the compounding effect over time. Of course, the magnitude of the difference between gross-of-fee and net-of-fee returns will depend on a variety of factors, and this example is purposely simplified.

| Period | Gross Return | Net Return | Differential |
|---|---|---|---|
| 1 year | 6.17% | 5.54% | 0.63% |
| 2 years | 12.72 | 11.38 | 1.34 |
| 10 years | 81.94 | 71.39 | 10.55 |

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