Discovery Global Real Estate Securities Feeder Fund

Q2 2022 Performance Commentary

During 2Q22, the fund underperformed the benchmark by 58bp, declining by 18.03%, while the benchmark fell by 17.45%. The first and second bites of the apple, namely country and sector, contributed most of the underperformance, to the tune of 51bps. The third bite of the apple, namely stock section, reduced performance by 20bps, while the currency effects added a modest 14bps. Since inception the fund is up 31%, outperforming the benchmark by 17%.

During 2Q22, our underperformance was driven almost entirely by our OW position in Europe, a region that continued to suffer from the impact of the Russian invasion of the Ukraine which weighed heavily on the broader European listed equity market. We have shrunk our OW in Europe, but continue to fund attractively valued stocks in that region with solid fundamentals. The negative impact of our European OW was partially offset by substantial 5.6% position in cash. We remain concerned over the direction of the overall market given the macro-economic challenges, and hence maintain a substantial cash position. Our OW HK position also contributed to positive relative performance, and we believe that Asia ex-Japan is likely to continue to outperform.

For the second bite of the apple, namely sector, our underweight positions in hotels, office and retail contributed positively as those sectors lagged the overall market. However, this was offset by our OW position in industrial, which had a tough quarter as the sector fell 24% along with growth stocks in general. We continue to believe that the strong fundamentals of the industrial sector will shine through, and recent data points to continued rent and price appreciation, supported by e-commerce and manufacturing onshoring. Our underweight in datacentres worked against us in 2Q22, but has worked in 3Q22 so far, and we believe that the supply will continue to overwhelm the demand, leading to weaker pricing. Higher inflation should continue to support our overweights in the short-term lease sectors such as self-storage and residential.

Leading the fund's individual stock contribution to overall performance was VICI Properties, the US gaming landlord, which appreciated by 3%, versus a US market that fell 19%. The second and third best performers were from Hong Kong, namely Swire Properties and SHK Properties, which were down 1-2%. HK and Singapore were the best performing developed markets globally in 2Q22, down 1% each. The worst performing market by far was Europe ex-UK, which was down 32%. We remain OW HK, and have recently moved to in-line Singapore, as we expect a re-opening of China to help these geographies. We have reduced our European OW in the face of continued bad data.

At the opposite end of the spectrum, our worst 3 individual stock performers for 2Q22 were all from Europe and the UK. Vonovia, the German residential landlord, was down 35%, which leaves it with close to a 6% dividend yield. While the German economy faces headwinds, we believe that the German residential housing market will remain relatively defensive, and so we remain OW Vonovia. We remain committed to Segro, the UK and European industrial landlord, which was down 33% from relatively lofty valuations, but has very solid fundamentals. Unibail, the European retail landlord, was also down 33%, and we remain UW the retail sector globally.

**Commentary is based on USD returns, gross of investment charges, as at close of US markets (16h00 EST) on the last trading day of the month. This may differ from ZAR returns, which is shown net of investment charges, as at 15h00 CAT on the last trading day of the month.*