# Discovery Global Real Estate Securities Feeder Fund

In the second quarter of 2023, the fund underperformed the benchmark by 175bps, decreasing by 1.51% while the benchmark increased by 0.24%. The underperformance was driven mostly by the first and second bites of the apple, namely country and sector allocation, which decreased by 154bps. The third bite, namely stock selection, decreased relative performance by 76bps. Currency effects had a positive impact of 54bps. The second quarter proved to be challenging with continued interest rate rises in the US, concerns over the European economy, China's disappointing reopening and low property transaction volumes globally adding opaqueness to the mix.

For the first bite of the apple, the weakest performing geography was HK where we remain overweight on the back of attractive valuations, peaking interest rates and expectations of higher growth. We were also overweight the UK and Australia, both of which performed poorly on the back of stubbornly high inflation and fast rising rates. We have cut our UK weighting to UW, but remain OW Australia because of its historically defensive characteristics. The best performing region was Japanese developers on the back of healthy inflation, accommodative monetary policy and a weak Yen. We remain underweight Europe and Singapore, which boded well for the fund last quarter as both were down. We are carefully monitoring the global markets to make sure that we capitalise on attractive valuations as and when interest rates peak and inflation falls to more acceptable levels.

For the second bite of the apple, our overweights in healthcare and data centres worked well, as senior housing occupancies continued to rise and artificial intelligence led to upward demand revisions respectively. We are also OW industrial and office, the former on the back of strong fundamentals and the latter on the back of attractive valuations, and the sectors performed broadly in line with the index during 2Q23. We are most UW residential, specifically apartments, on the back of weak affordability and ample supply. This view did not find traction in 2Q23, with the sector outperforming the index substantially. We were also UW self-storage and net lease, which worked well for us as they underperformed the index. We continue to UW self-storage as we believe that the run up in asset values in the physical market has been extreme, but we have reined in our UW on the net lease side as interest rates roll over and their growth surprises on the upside.

The top three performing stocks for this quarter were all US-based. Data centre stock Digital Realty led the charge rising 17%, followed by senior housing behemoth Welltower up 14% and West Coast residential stock Essex up 13%. We continue to own Digital on the back of likely continued strong growth and positive sentiment around AI, and Welltower, because the senior housing story has far from run its course. We have sold Essex for the reasons mentioned above. The worst performer for this quarter was US office property stock Hudson Pacific, down 35%, which we have excised from the portfolio. HK/China performed poorly, and hence Kerry and Hang Lung fell 14%, and we sold both. We remain overweight HK, but we believe the best way to express that is through Link REIT.

We remain defensively positioned as we believe that we have yet to reach the trough as economic growth slows further and interest rates rise. That said, valuations are attractive and returns should be healthy on a 12-month view. We remain nimble and macro data driven in this volatile market.

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