# Discovery Global Income Share Portfolio

## July 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 rose in the month of July, returning 7.94% (total returns in USD). Markets recovered during the month as markets shifted focus to the release of company earnings and recessionary concerns eased. Hopes around a potential decrease in the aggressiveness of interest rate hikes by the Federal Reserve were sparked after positive commentary from officials, which helped Growth catch up to the Value style factor.

Corporate earnings released during the month led to markets taking on a more bullish stance. High levels of consumer and corporate spending helped companies report better-than-expected earnings numbers on an overall basis. However, keeping in mind the stickiness of commodity price rises and the persistence of supply chain issues, management guidance remained mixed. Strong numbers motivated investors to tilt focus and pivot investments back to the growthier segments of the market. During the month, all the sectors registered positive returns with the Consumer Discretionary and Information Technology sectors leading the pack and generating the maximum 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 2.0%. The Goldman Sachs Asset Management's Global Equity Income Strategy returned 5.33% in July, underperforming the MSCI World Index by -261 bps (gross of fees, USD).

- At the sector level our positioning in Information Technology and Industrials contributed the most to total returns while our positioning Communications Services and Health Care detracted the most from absolute returns.

- As of the most recent quarter end, the strategy has over $23mm in assets under management.

| Periods Ending 31-Jul-2022 | Global Equity Income Strategy (%) | MSCI World (%) | Excess Return (bps) |
|---|---|---|---|
| July 2022 | 5.33 | 7.94 | -261 |
| YTD 2022 | -9.97 | -14.19 | +422 |
| Trailing 1 year | -5.70 | -9.16 | +347 |
| Trailing 2 years | 10.78 | 10.77 | +1 |
| Trailing 3 years | 7.07 | 9.57 | -250 |

*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:

- **Eaton Corp Plc (Contributor)** – Eaton Corp Plc, an American-Irish multinational power management company, contributed the most to absolute returns.  Eaton Plc is one of a few companies that does not plan to see any material earnings cuts in 2023. The company has also worked to build inventory to support delivery in case of a future build-up of backlog. We view the company as an attractive free cash flow generator. We find that the company has a nice combination of structural growth markets within electrical products and a recovery play within aerospace. We are favorable on the end market exposure to some recovering sectors (including commercial aero) and believe they should benefit from any incremental government stimulus around infrastructure.

- **Microsoft (Contributor)** – Microsoft, a multinational technology company, was a contributor to absolute returns during the period. The company saw a deteriorating environment in some of its end markets and reported a miss on earnings. However, shares were supported by better than expected FY23 guidance. The scale of the company positions it to absorb headwinds on margins better than some peers with limited levers. We remain favorable on the company gives its execution capabilities and breadth of offerings.

- **AT&T (Detractor)** – AT&T, an American multinational telecommunications company, detracted the most from absolute returns. The company reported strong earnings; however, FCF guidance was lowered. The lowered FCF guidance was attributed to heavy investment in growth and working capital impacts related to timing of collections. We remain favorable on the company and believe that AT&T is well positioned for the future as it continues to phase out its 3G network to facilitate a transition to 5G networks.

- **HSBC Holdings (Detractor)** – HSBC Holding Plc, a multinational investment bank and the second largest bank in Europe, was a detractor from absolute returns. The name reacted in line with peers as the broader financial sector sold-off in July. The bank is still under pressure from their largest shareholder to break-up its units and create a separated Asia-listed spin-off. The bank has resisted and responded by saying that they will try to speed on leaving non-core markets and the bank is said to be in current talks to sell their Russian unit to Expobank. We view the company as a high quality bank and believe it could be more in favor vs. other banks given it is more geared towards the US rate cycle, benefiting from the potential higher increase in US rates than Europe

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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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