# Discovery Global Real Estate Securities Feeder Fund

In the third quarter of 2023, the fund outperformed the benchmark by 156bps, decreasing by 4.28% while the benchmark decreased by 5.84%. The outperformance was mostly driven by the third bite of the apple (stock selection), which increased by 222bps, while the first and second bites of the apple (country and sector allocation) decreased by 67bps. Currency effects had a negligible effect on performance this quarter. Global real estate year to date has performed poorly in absolute terms as interest rates increases have put pressure on cap rates and balance sheets, but in relative terms our defensive strategy has paid off nicely during the third quarter.

For the first bite of the apple, the best performing geography for the quarter was Japanese developers, which were up 10%. Japan has done well as higher inflation is a tailwind versus deflation earlier, and interest rates have been maintained at low levels. We remain underweight Japan because of their exposure to office property stocks, poor demographics and likely better absolute upside in other geographies over the next 6-12 months. The second-best performer was Europe, up 3%, making these the only two regions with positive performance this quarter. The weakest performing geography was HK as macro data continues to disappoint, but we remain overweight on the back of attractive valuations and increased tourist arrivals from China. We were also overweight the UK and Australia, both of which performed poorly during the 3Q on the back of stubbornly high inflation and fast rising rates. We are also underweight the US, as interest rates there are expected to remain higher for longer and economic growth is likely to slow in the coming quarters.

For the second bite of the apple, all the US sectors performed negatively during 3Q23, which worked in our favour as we remained underweight the US. We are most underweight residential, specifically apartments, since supply remains elevated and affordability is low given high prices and mortgage rates, which worked out well as residential significantly underperformed in the US index. However, we were overweight net lease, which turned out to not be defensive during 3Q23, clocking in the weakest performance of any sector. We are overweight healthcare, industrial and data centres as their demand and rent growth was stronger than other sectors, and those sectors all moderately outperformed the index. We are underweight offices and hotels, which were the best performing sectors during 3Q23, although still down for the period. Hotels should be particularly vulnerable should US GDP growth slow, which is our expectation.

The top performing stock in our portfolio during 3Q23 was Vonovia, the German residential behemoth, up 23%. The stock has been significantly derated because of a more leveraged balance sheet and rising rates, but has rallied more recently as weak macro data continue to come out of Europe, decreasing the likelihood of further rate rises, and German residential rents continue to rise. The second and third top stocks were the Japanese developers Mitsui Fudosan and Mitsubishi Estate, up 11% and 10% respectively. The worst performing stocks for the quarter were all from the US. Leading the pack was self-storage stock Extra Space, which was down 18%, followed by the net lease stocks Realty Income and Agree Realty, both down 16%. Net lease stocks are usually defensive, but they also have bond-like characteristics, so higher interest rates played a major part of their weak performance 3Q23.

The last 18 months have been challenging for global real estate stocks, and we have been defensively positioned. However, we are beginning to see some light at the end of the tunnel with rates peaking soon, and likely to fall 2H24. Our macro models indicate absolute upside of around 15% over the coming year, and we are finding some attractively valued stocks for the medium term.



Highest rolling one-year return 37.32% and lowest rolling one-year return -20.74% (information to 30 September 2023). The fund has returned an annualised return of 6.17% since inception (benchmark annualised return of 6.04% since inception). The fund's annualised performance over 1-year is 7.80% (Benchmark: 5.32%). The fund's annualised performance over 3-years is 2.54% (Benchmark: 4.11%).
The fund's annualised performance over 5-years is 4.91% (Benchmark: 4.33%). Fund returns disclosed are annualised returns net of investment management fees and performance fees. Fund returns disclosed are annualised returns net of investment management fees and performance fees. Highest and Lowest performance: The highest and lowest performance for any 1 year over the period since inception have been shown NAV: The net asset value represents the assets of a Fund less its liabilities. Annualised return is weighted average compound growth rate over the period measured.

## DISCLAIMER:

Discovery Life Investment Services Pty (Ltd): Registration number 2007/005969/07, branded as Discovery Invest, is an authorised financial services provider. Product rules and terms and conditions apply.

The views and opinions expressed in this article are for information purposes only and should not be seen as advice as defined in the Financial Advisory and Intermediary Services Act. Discovery shall not be liable for any actions taken by any person based on the correctness of this information. For full details on the products, benefits and any conditions, please refer to the relevant fact file. For tailored financial advice, please contact your financial adviser.

For the full CIS disclosure and risk statement, go to:
CIS disclosure:
http://www.discovery.co.za/assets/discoverycoza/corporate/cis-disclosure.pdf
Risk disclosure:
http://www.discovery.co.za/assets/discoverycoza/corporate/risk-disclosure.pdf