Discovery

Discovery Global Real Estate Securities Feeder Fund

Q4 2022 Performance Commentary

During 4Q22, the fund underperformed the benchmark marginally by 19bps, increasing by 6.66% while the benchmark increased by 6.85%. The negative performance was driven mostly by the first and second bites of the apple, namely country and sector allocation, which reduced relative performance by 52bps. Stock selection reduced relative performance by 43bps. Currency effects added a significant increase of 75bps because of our USD cash position. Since inception, the fund has beaten the benchmark by 18% before expenses, up 25%, while the benchmark is up 7%. In 2022 the index was down 25%, the worst year for real estate stocks since 2008, giving back a similar gain in 2021. The outlook for the property stocks in 2023 is good, and the stocks are off to a strong start.

For the first bite of the apple, our underperformance in 4Q was driven by our OW positions in Australia and the UK and UW position in Singapore, although the fund was defensively positioned to weather inflationary headwinds. We maintain our OW position in Australia as China opens its borders, the APAC region in general should benefit from this in 2023. We remain OW the UK as valuations are favourable. We are likely to increase our weighting in Singapore and Hong Kong in the new year as they should benefit from China's opening and have attractive valuations. We have been monitoring inflation and GDP closely to establish when the market will bottom, and in the new year, we will likely take advantage of stocks with attractive valuations and strong balance sheets.

For the second bite of the apple, our OWs in self-storage and industrials worked out, while our UW in lodging, shopping centres, and offices did not. We remain defensively positioned as numerous headwinds are still present. Residential was the weakest US sector during 4Q22, while we are still OW as we expect mortgage rates to remain flat in 2023 as inflation subsides. We are OW data centres, healthcare, and malls as we like the fundamentals. We are UW net leases as valuations are less favourable, and beta to the upside is more limited. We remain UW offices as vacancy is still on the rise as more people opt to work from home and as unemployment likely rises in 2023. We are adjusting capitalisation rates and market multiples as valuations become more attractive.

Leading the fund's individual stock contribution was Simon Property Group, the US mall stock, which appreciated by 31% versus the US REIT index which was up 4%. The second-best performer was Land Securities, the British developer, which appreciated by 30%. The third best performer was Unibail, the European retail stock, which appreciated by 24%. The worst performer in 4Q22 was Extra Space, the self-storage company, which was down 15%, reversing some of the fantastic performance of 2021. US residential stocks ESS and INVH were both down 12%.

As the new year begins, we are carefully tracking valuations, GDP growth, and the inflation trajectory to attempt to predict the timing and level of the bottom of the market with more confidence. Valuations are already attractive and diverging sector level fundamentals are likely to make stock picking more important in 2023. The market is likely to remain volatile over the coming months, but we believe that multi-year returns for global property stocks look attractive from here.

**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.*