Discovery Global Real Estate Securities Feeder Fund

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The first quarter was turbulent for global equities. The Fund underperformed the benchmark by 65 bps as the benchmark increased by 159 bps, while the Fund increased by 94 bps. This was driven mainly by the first and second bites of the apple, region and sector allocation, which detracted from performance by 136 bps, partially offset by the third bite of the apple, stock selection, which buoyed performance by 61 bps. We held a 3% cash position, which had a negligible impact on performance. Stocks traded very differently during the first and second parts of the quarter. Initially, the property stocks traded well on solid Q4 2024 earnings announcements and the anticipation of several interest rate cuts in 2025. However, March was a volatile month due to choppy macro news flow, an environment that will likely persist for the foreseeable future. As a result of US tariff increases, long-term US interest rates have fluctuated, while US and global GDP growth forecasts have been cut. The impact of lower GDP growth is unequivocally negative for property stocks, although the sensitivity varies substantially between property sectors. The impact on interest rates is even more complex, with tariffs likely to be inflationary, while slower growth is deflationary.

During the first quarter, Japanese developers were the top performers, with Japanese REITs placed third, up 15% and 9%, respectively. Japan has benefited from stronger growth than previously and more recently from its safe-haven status in an uncertain global environment. However, we remain underweight in Japan, given its demographic challenges, ample supply and rising interest rates. The second-best performers were the Hong Kong REITs, up 10%, although the developers were flat. We are overweight Hong Kong, given attractive valuations, and likely China and Hong Kong government stimulus measures to offset the impact of increased tariffs. Singapore developers and REITs were up 6-7%. The UK is our most overweight region, which was up 4% for the quarter, and we continue to prefer the strong balance sheets and decent fundamentals available in this geography. The EU was up 2%, in line with the index. We are underweight Australia, the worst performing region, down 7%, largely due to being negatively disposed towards index heavyweight Goodman, which is expensive due to data centre hype. The US was the second worst-performing region, and we maintain our underweight on valuation grounds as we reassess the sectors post the tariff announcements.

On a US sector basis, healthcare performed the best, up 15%, as the bright outlook for senior housing demand, given an ageing population, continues to impress. However, this sector is now our largest underweight because of stretched valuations, even assuming aggressive growth. The second-best performing sector was triple net lease, up 9%, as the market looked ahead to interest rate cuts, which post-tariffs, are now less certain. Industrial stocks rose 5%, and we were overweight as supply was set to fall substantially in the second half of 2025, and demand was picking up. However, the industrial demand outlook is now looking substantially weaker as growth stalls and expansion plans are put on hold due to the uncertain tariff environment.

Residential also performed positively, up 3%, but we remain underweight as housing affordability remains weak and the job market looks less positive. The rest of the US sectors performed poorly during the first quarter. The weakest sector was lodging, down 18%, where we have zero weighting because of cyclical and structural headwinds. Data centres were down 14%, and we remain cautious on the back of record supply and historically weak margins. Shopping centres were down 10%, but we remain overweight on relatively more stable fundamentals and attractive valuations. Malls were down 4% for the quarter after rallying in 2024, and discretionary spending looks vulnerable. Offices were down 10%, but we are overweight because of falling vacancy rates and decent rental growth for quality space. The likely slowdown in GDP growth post-tariffs could delay this thesis.

This quarter, the top-performing stocks in our portfolio were EU industrial stock Warehouse De Pauw, up 21%, followed by Japanese developer Mitsubishi Estate, up 16%, and Aussie diversified group Mirvac, up 12%. We have exited the Mirvac position as fundamentals weakened during the quarter. The worst-performing stocks were all from the US. Data centre stock Digital Realty and West Coast office stock Kilroy were both down 19%, the former on the back of ample supply and uncertain margins and the latter on the back of still high office vacancies and concerns over technology sector office job growth. Mall stock Macerich was down 14% on the back of a weaker outlook when they announced results.

The first quarter was challenging for equities, and that has continued into the second quarter. The environment is likely to remain volatile as the various geographies react to the higher US tariffs in different ways, and the impact on the economies becomes clearer. We remain overweight in the UK, where tariffs are lower and balance sheets are more resilient than on the continent, and in Hong Kong, where weak fundamentals are already reflected in valuations and government stimulus is likely. We are underweight in the US, where valuations are relatively full, and fundamentals are being buffeted by unpredictable policy changes. Property stocks have significantly outperformed the overall market over the last month, and that relative outperformance is likely to continue on the back of attractive relative valuations and more defensive fundamentals than the overall market.