Discovery Global Real Estate Securities Feeder Fund

Q3 2022 Performance Commentary

During 3Q22, the fund underperformed the benchmark by 61bps, declining by 12.19% while the benchmark decreased by 11.58%. 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 88bps. Stock selection reduced relative performance by 40bps as our large stock portfolio suffered in the face of aggressive selling and shorting. Currency effects added a significant increase of 67bps because of our USD cash position while the Pound and Euro dropped 7-8%. Since inception the fund is up 16% while the market is flat.

For the first bite of the apple, our underperformance was driven by our OW position in Europe and UW position in Japan, although the latter was somewhat mitigated by a 5% fall in the Yen. We have adjusted our positioning to being marginally UW Europe currently, as the very weak macro outlook is almost compensated for by extremely attractive valuations. Several sectors have not been this attractively valued since the data start, which includes the Global Financial Crisis. We also remain overweight HK, which we believe will recover off attractive valuations as the China economy slowly recovers, and HK reopens to China visitors. We remain concerned over the direction of the overall market given the macro-economic challenges, and hence maintain a substantial cash position.

For the second bite of the apple, our OWs in self-storage, residential and malls worked out, while our UW in lodging and shopping centres did not. These positions remain unchanged. Healthcare was the weakest US sector during 3Q22, and we have recently moved to OW on the back of good long-term demand for senior housing in an uncertain environment. We are also OW triple net lease, particularly gaming, which should prove resilient in an economic slowdown. We are UW office because of the long-term structural demand decay due to work-from-home. Industrials we are EW as a more certain growth outlook is offset by rich relative valuations.

Leading the fund's individual stock contribution was Extra Space, the US self-storage stock, which appreciated by 2% versus the US market down 11%. Down from first in 2Q22, VICI Properties had another sterling performance as a wealth preserver, flat for the period and our second best performer. Life Storage, another US self-storage stock, rounds out the top 3. Self-storage has proven to be a resilient sector in demanding times, such as Covid in 2020, and yet lead the upside in good times, such as in 2021. The worst performer in 3Q22, like 2Q22, was Vonovia, down another 31%. German residential rents remain resilient, but all eyes are focused on the magnitude of cap rate increases we are likely to see on the back of higher rates. SEGRO and Land Securities from the UK round out the top 3 underperformers, down 28-30%.

In the near-term, headwinds remain given the toxic combination of rising rates and slowing economies, particularly in Europe. However, valuations are at extremely attractive levels, and we believe that the forward returns for the global property stocks have improved markedly after the correction YTD, and multi-year returns look attractive.

**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.*