
# Discovery Global Income Share Portfolio

July 2021

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.

# Market Review

After the strong upward momentum of the first quarter, and a volatile second quarter, the month of July continued to remain volatile with global equities reacting to both 2Q earnings results and COVID-19 delta variant concerns. Discussions centered around the reflation trade in July with different dynamics in focus, including traction behind the peak growth, inflation themes and policy themes and the spread of the Delta variant of Covid-19. Focus remained on the possibility that the Federal Reserve may not be as willing to let the economy run as hot as initially envisaged under its policy framework. Bullish narrative surrounding central bank liquidity tailwind, excess savings from fiscal stimulus, reopening momentum, vaccine efficacy, upside earnings surprises, elevated operating leverage, corporate buyback boom and retail impulse prevailed in July.

The Federal Reserve reported in its July policy statement that progress is being made toward tapering. The Senate voted in late July to advance debate on nearly $1 trillion bipartisan infrastructure package that features $550 billion of new spending on transportation, power, water and broadband. However, the path to additional fiscal stimulus remains complicated. June headline and core Consumer Price Index readings were ahead of consensus, with the year-over-year core rate of 4.5% noting the highest reading since 1991. Japan continued its underperformance during the month of July with TOPIX down 2.2%. Defensive sectors such as Communication Services, Health Care and Consumer Staples were the key sectors which dragged the index downwards while cyclical sectors were relatively resilient. News-flow on the corporate side was fairly muted during the month as Olympics and COVID-19 cases dominated Japan related headlines.  Tokyo Olympic games began as scheduled on July 23rd with lower fanfare. An event like the Olympics typically provides economic benefit in two ways: 1) Infrastructure development for the event and 2) Inbound tourist expenditure. Japan is estimated to have spent about $12-$15bn in infrastructure development in preparation for the games. The overall impact from this was estimated to be about 0.2% of GDP which benefitted some of the building materials and construction companies, but it did not meaningfully change their long term prospects. The other benefit was supposed to come from money spent by spectators who would have visited Japan during the games. However, international tourists have been banned from the country since the start of the pandemic limiting the economic boost given the smaller population size permitted to attend the games this year.

All the sectors ended the month in green except Energy and Financials with Health Care and Real Estate being the best performing sectors.

# Performance Overview

- On a yield basis, the portfolio’s current yield (gross of tax) of 2.9% in the trailing 1-year period is higher relative to the index yield of 1.7%. The Goldman Sachs Asset Management’s Global Equity Income Strategy returned 2.10% in July, outperforming the MSCI World Index by 31 bps (gross of fees, USD).

- At the sector level, our positions within the Information Technology and Industrial sectors contributed the most to total returns during the month, while our positions in the Energy and Consumer Discretionary detracted from absolute returns.

- The strategy has over $53mm in assets under management.

| Periods Ending 31-July-2021 | Global Equity Income Strategy (%) | MSCI World (%) | Excess Return (bps) |
|---|---|---|---|
| July 2021 | 2.10 | 1.79 | 31 |
| YTD 2021 | 13.78 | 15.07 | -130 |
| Trailing 1 year | 29.79 | 35.07 | -528 |
| Trailing 2 years | 14.22 | 20.32 | -610 |

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:

- **Microsoft Corporation** (Contributor) – Microsoft Corporation, a multinational technology company, was the top contributor to returns over the month. The technology sector benefited as interest rates pulled back. Additionally, shares benefitted from increased confidence around the company's cloud strategy, including both Office 365 and Azure. We remain positive on Microsoft and continue to find it a well-diversified, high-quality company that is led by an excellent management team

- **Accenture Plc** (Contributor) – As one of the highest quality IT consulting firms, the company continues to gain share across the cycle and streamline their businesses and processes to become more efficient. The company had a strong second quarter with optimistic consensus estimates for both high revenue and higher profit as the company continues to benefit from the recovery in enterprise technology spending.

- **Las Vegas Sands** (Detractor) – Las Vegas Sands, American casino and resort company, was the top detractor from returns over the month. Despite their name, the company is in the midst of exiting the Las Vegas market to focus on their international venues, most notably properties in Macau and Singapore. With the spread of the delta variant, travel continues to be restricted to those regions limiting the in-person activity possible in those casinos. Additionally, the Macau market is impacted by the broader fears of increased China regulatory crackdown, further hurting the outlook for those assets given their dependence on 'high rollers'.

- **BP Plc.** (Detractor) – BP an integrated oil and gas company, modestly detracted from returns during the month. The company was impacted by a decline in commodity prices compounded by a 'cooling off period' given the stock had outperformed its peers year-to-date.

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| 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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