

Discovery Global Equity Income Portfolio

Global market review

MSCI World Index began the year on a flat note, returning -0.99% in January 2021. Global stock markets continued their 2020 rally early in January on the prospect of a more aggressive US fiscal policy under a new Biden administration, but declined later in the month as COVID-19 cases officially surpassed the 100 million mark and markets saw the largest hedge fund de-grossing since February 2009. After a record-high level of 3824.68, S&P 500 fell significantly late in the month as exchanges traded their highest volume ever with extreme volume in highly shorted stocks. During the month, President-elect Biden's proposed a \$1.9 trillion COVID-19 relief plan and investors' attention turned to stimulus negotiations. US GDP remained below pre-pandemic levels, decelerating to +4.0% annualized in Q4. The lower-than-consensus print reflected ongoing impacts of the pandemic, with COVID-19 restrictions and lower services consumption weighing on the recovery. However, Q4 also saw growth in the business structures, equipment, and residential categories. Within the MSCI World Index, all sectors, except Energy and Health Care, posted negative returns during the month.

Market background source: GSAM, as of January 2021. The economic and market forecasts presented herein are for informational purposes as of the date of this presentation. There can be no assurance that the forecasts will be achieved. There is no guarantee that these objectives will be met.

Strategy Performance

- The **GSAM Global Equity Income Strategy underperformed the MSCI World by 74bps (gross of fees) in January.**
- During the month our positioning in Taiwan contributed the most to absolute performance while our positions in the United States detracted the most from returns. Our allocation to the Energy and Real Estate Infrastructure sectors contributed the most to returns while our positions in Financials and Information Technology detracted the most from performance.
- On a yield basis, the strategy's current yield (gross of tax) of 2.75% in the trailing 1-year period is higher relative to the index yield of 1.77%.¹

Periods Ending 31-Jan-2021	Strategy Gross Returns (%)	MSCI World (%)	Gross Excess Return (bps)
January 2021	-1.73	-0.99	-74
YTD 2021	-1.73	-0.99	-74
Last 1 Year	5.02	15.41	-1,039
Last 2 Years	12.06	16.56	-450
Last 3 Years	4.06	8.29	-424
Since Inception	4.18	5.75	-157

Source: GSAM, as of January 31, 2021. Inception Date: May 01, 1999. 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.

¹ Dividend yield is sourced from FactSet.

Performance Commentary

Some of the top contributors and detractors for the month include:

- **Wells Fargo & Co. (Contributor)** – As the top contributor over the month, the company is working to chart a new path in 2021. They have begun optimizing their business by eliminating redundancies (under-utilized branches, etc.), and exiting businesses where they are not best positioned to succeed. The stock outperformed on a strong outlook as the company allocates capital to realign with its strengths, and divest from where it is weakest.
- **Taiwan Semiconductor Manufacturing Co. (Contributor)** – As a leading computer chip manufacturer, and a key chip supplier to Apple Inc., the company has benefitted from the increased demand for computers, tablets, and mobile devices as all aspects of working, learning, and social interaction remain online.
- **Coca-Cola Company (Detractor)** – a global beverage company, was the top detractor from absolute returns during the period. Shares declined driven by news of a tax ruling on transfer pricing which had saved the company over \$3bn of tax expense. Although this is still being litigated and the final ruling will take time, we find the market has overly discounted any negative outcome. We continue to be favorable on Coca-Cola.
- **BNP Paribas (Detractor)** – Despite underperforming during the period, BNP is one of the defensive banks in Europe. Performance in 2020 was driven by capital markets revenue and lower provisions. However due to dividend ban on European banks by the regulators, BNP underperformed the benchmark at the start of 2021. Going forward we expect BNP to continue to show its resilient performance. Lower provisions and control on expenses should offset pressure on revenue growth due to low interest rate environment. Moreover as the regulators have lifted the dividend ban (with caveats completely removed on 30th September 2021), BNP should resume paying dividend and return to 50% pay-out in 4Q21. BNP is well capitalized and can return to its pre-Covid pay-out ratio.

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Market outlook

As the market anticipates a recovery alongside the rollout of the vaccine, we remain vigilant in navigating through optimistic market sentiment given the potential for volatility. While we see a path to an uptick in global economic activity to support further market upside, we caution that the economy remains in the infancy of its recovery and uneven progress suggests that full macro normalization will remain dependent on the trajectory of COVID-19 recovery, successful global vaccine distribution, and ongoing fiscal and monetary policy. As the economic expansion widens, we expect the equity market rally to continue, but with broader sector participation. Within this recovery period, we believe that it is crucial to stay true to our quality-first investment approach. As always, we seek to invest in businesses with healthy balance sheets, relatively stable free cash flow generation, and differentiated business models aligned to secular advantages. We continue to test our models and re-evaluate our assumptions with increasing information, and stay focused on the long-term investment horizon.

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The following table provides a simplified example of the effect of management fees on portfolio returns. Assume a portfolio has a steady investment return, gross of fees, of 0.5% per month and total management fees of 0.05% per month of the market value of the portfolio on the last day of the month. Management fees are deducted from the market value of the portfolio on that day. There are no cash flows during the period. The table shows that, assuming all other factors remain constant, the difference increases due to the compounding effect over time. Of course, the magnitude of the difference between gross-of-fee and net-of-fee returns will depend on a variety of factors, and this example is purposely simplified.

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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