

Discovery Global Real Estate Securities Feeder Fund

Market background

The fund recorded a decline of 1.45% for the month of January while the benchmark fell by 0.81%, translating into an underperformance of 64bps. The underperformance recorded for the month of January largely stems from the third bite of the apple, namely stock selection. Stock selection detracted 83bps from overall performance while country and sector allocation, the first and second bites of the apple, contributed 17bps. The positive contribution from the first bite of the apple is largely attributable to the fund's underweight positions in Europe, Australia and Japan. All three countries underperformed the benchmark by 4%, 3% and 1% respectively. We maintain our underweight positioning in Europe on the back of extended lockdown restrictions, depressed business and consumer confidence. We continue to remain underweight Australia on account of our bearish view on the cyclically and structurally challenged office and retail markets. Owing to a subdued economic growth outlook and challenged demographics, we remain underweight Japan.

The positive contribution from the second bite of the apple was largely driven by our overweight positioning in US malls, shopping centres and our underweight exposure to the US lodging sector. US malls and shopping centres both outperformed the US REIT index by 14% and 5% respectively, while the US lodging sector underperformed the index by 5%. We maintain our overweight positioning in the US retail sector on the back of attractive valuations. We continue to remain underweight the US lodging

sector on account of challenged operating fundamentals, and growing concerns about the adverse impact of the continued use of virtual meeting platforms on corporate demand.

Leading among the fund's top performing stocks for the month is Hong Kong Land, the diversified investment property landlord and developer with a strong focus in the office sector, rose 12% and outperformed its respective benchmark by 9%. Retail stocks continued to rally on the back of attractive valuations despite poor operating fundamentals. Simon Property Group, the US premier retail landlord, rallied 9%. Unibail Rodamco Westfield, the European retail landlord, recorded a return of 7% and in turn outperformed the European (excluding the UK) property index by 11%.

The worst performing stock for the month is Mirvac Group, the diversified Australian property company, fell 11% and in turn underperformed the Australian benchmark by 7%. City Developments, the Singaporean listed developer declined by 10% and underperformed the Singaporean non-REITs index by 5%. Rounding out our list of detractors for the month is Vonovia, the German residential landlord fell 9% and underperformed the European property index by 5%. We continue to favour the German residential market on account of the structurally supported supply-demand imbalance across the sector.

We maintain our barbell approach between value and growth stocks with a preference for countries that are better positioned to deliver on their vaccine rollout plans. We are overweight the US, where we believe the government is better equipped to have an adequate supply of vaccines by the second half of the year, as per the US president's pronouncement. In addition, Pfizer and BioNTech have agreed to double supply of their vaccine to the US. We are also overweight the UK, which so far has the highest vaccine rollout per 100 of population across Europe. Lastly, we are overweight Singapore where we believe that the government is likely to be able to resuscitate the economy.

*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.

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