

# Discovery Global Income Share Portfolio

June 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, global equities continued on their upward trajectory in April but were impacted in May and rose back up in June while remaining volatile evidenced by MSCI World returning a decent 7.74% during the quarter. Global rates largely rose during April on the back of strong economic data and the prospect of additional fiscal stimulus but stabilized towards the end of the month. The rotation trade from growth to value took a breather in April, with growth stocks outperforming their value counterparts by more than 3%. Starting May, equity markets across the world were impacted by rising commodity prices which stoked fears of an earlier than expected rate hike from central banks, particularly the Fed. In June, the equities rallied following a weaker-than-expected US payrolls release that eased concerns of a shift to tighter monetary policy, and market expectation for inflationary pressure, driven by pent-up demand and supply constraints.

Overall, discussions throughout the quarter centered on the central bank liquidity tailwind, fiscal stimulus, vaccine progress, reopening momentum, strong corporate profit backdrop and robust equity inflows. While inflation concerns were fairly pervasive during the period, the Federal Reserve remained consistent in its messaging around expectations that price pressures will be transitory. The peak inflation theme gained traction as the quarter progressed even as economists suggested that the transitory period may be longer than expected. However, despite upgrading its growth forecasts for this year and expecting unemployment to decline, the Federal Reserve does not believe inflation will be meaningfully above target and does not expect to raise rates before 2024. Earnings season brought another round of outsized beats over consensus estimates, along with corporate commentary highlighting some input pressure offset for companies with above-average pricing power or productivity initiatives. Despite a late-quarter agreement between the White House and a bipartisan group of Senators on the framework of a physical infrastructure package, the path to additional fiscal stimulus remained complicated.

In Japan, state of emergency measures following a third wave of COVID-19 cases (started in March) and slow vaccine roll outs continued to weigh on investors' sentiment for the majority of the quarter. However, the market rallied strongly during the first half of June likely driven by the increased pace of inoculations which has now risen to more than 1 million jabs per day, up from around 400,000 in May. This exuberance was short-lived as the direction of the market sharply turned south in during the middle of the month in step with the US markets. Additionally, after a great amount of uncertainty, the Olympics are finally happening in Japan starting 28th July, 2021. Most of the venues where events are to be held will be sans spectators and even at those few venues where viewers are allowed the number will be greatly restricted.

All the sectors completed the quarter in green except Utilities and Information Technology, Real Estate and Communication Services were the best performing sectors.

## Performance Overview

- On a yield basis, the portfolio's current yield (gross of tax) of 2.8% 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 -1.09% in June, underperforming the MSCI World Index by 258 bps (gross of fees, USD).

- At the sector level, our positions within the Information Technology and Healthcare sectors contributed the most to total returns during the month, while our position in the Financials and Utilities detracted from absolute returns.
- The strategy has over \$53mm in assets under management.

Periods Ending 30-June-2021	Global Equity Income Strategy (%)	MSCI World (%)	Excess Return (bps)
June 2021	-1.09	1.49	-258
YTD 2021	12.06	13.05	-99
Trailing 1 year	33.52	39.04	-553
Trailing 2 years	13.13	19.55	-642

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:

- **American Tower Corporation** (Contributor) – American Tower Corporation, a global real estate investment service provider, was the top contributor over the month. The company closed two tranches of its Telxius Towers acquisition in Europe and Latin America respectively, comprising of about 27,000 communication sites. The close of these tranches helped American Tower's returns over the month as well as the announcement of a long-term strategic partnership with Allianz Capital Partners in Europe.
- **AstraZeneca PLC** (Contributor) – AstraZeneca PLC, a pharmaceutical holding company headquartered in the UK, also contributed to returns during the month on the back of several positive clinical trial results and treatment approvals. The company has continued to see an appreciation in share performance based off of the reception of their COVID-19 vaccine, which several international countries are using as not only the primary dose, but also as a booster shot.
- **BNP Paribas**. (Detractor) – On the other hand, BNP Paribas, a French multi-national provider of banking and financial services, was the top detractor over the period. Shares suffered in line with the broader financial sector as interest rates pulled back during the month. We believe lower provisions and control on expenses may offset pressure on revenue growth due to the low interest rate environment.
- **Iberdrola SA** (Detractor) – Iberdrola SA, a multi-national electric utility holding company headquartered in Spain, also detracted from returns over the period. In late June the CEO of Iberdrola was placed under investigation by Spain's High Court as part of a probe into bribery,

breach of privacy, and fraud. Shares have suffered from the subsequent reputational damages that the investigation has caused. However, we remain favourable based on the company's continued expansionary and sustainability efforts. During the month the company announced a new agreement with the South Korean GS Energy to search for and develop renewable installations, including onshore and offshore wind and photovoltaic projects.

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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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