Discovery Global Real Estate Securities Feeder Fund

The first quarter of 2024 started with weaker performance as the Fund underperformed the benchmark by 387bps, as it decreased by 5.24% while the benchmark decreased by 1.37%. The underperformance was mostly driven by the first and second bites of the apple (region and sector allocation), which decreased performance by 289bps, while the third bite of the apple (stock selection) decreased by 187bps. Currency had a positive impact on performance of 89bps for the quarter. Global real estate year to date has underperformed the overall equity markets substantially. Our performance was underwhelming because our bullish views on an attractively valued Hong Kong (HK) appeared premature, while our bearish views on a relatively expensive Japan were also wide of the mark as momentum carried that market to new highs.

Japanese developers rallied 25% during the quarter as negative real rates continued to drive share prices. The second-best performing region was Australia, up 4%, followed by the US, which was marginally down on the back of rising rate expectations. On the bottom end, HK REITs were down 23%, as HK's economic data disappointed, while China's property stocks were in free fall because of debt defaults. Singapore was down 15% as the residential market remained moribund on the back of draconian stamp duties implemented last year. We are overweight the UK on the back of high-quality companies with low debt burdens, but that market fell 5% as well. Europe was down 6% for the quarter, and we have recently moved to overweight as inflation is surprising on the downside, leading to an increased likelihood of rate cuts there.

US malls were the best-performing sector, up 10%, as the earnings outlook brightened in the face of stronger economic growth than expected and limited supply, and we have moved to neutral as a recession becomes less likely. The second-best performer was lodging, with the sector up 4%, followed by data centres, up 3%. We remain underweight in the former sector as it has proven to be a perennial underperformer in the longer term, while we remain overweight in the latter as demand continues to outstrip supply by a healthy margin, driving the most rapid NOI growth of any property sector. The weakest performing sectors were shopping centres, self-storage and net lease, all down around 6%. We remain underweight shopping centres as growth is limited, and self-storage, where recent rental data has been particularly weak. We are neutral net leases despite limited growth on the back of attractive valuations and likely falling interest rates. Our largest underweight remains in residential apartments as supply remains elevated and housing affordability is still weak, and the sector was flat for the quarter. The office, industrial and healthcare stocks were also down.

Our top-performing stocks this quarter were US mall stock Simon Property Group, up 10%, followed by predominately European retail stock Unibail, up 9%, and Australian Mirvac, up 8%. We remain committed to the former two stocks but have taken profit on Mirvac as we expect their residential sales to be weaker than their competitors. The worst-performing stocks for the quarter were HK retail stock Link REIT, down 23%, followed by Singaporean industrial stock Mapletree Logistics, down 18%, and Japanese industrial stock GLP J-REIT, down 16%. We continue to believe that Link REIT offers good value with a 7-8% dividend yield and are comfortable with GLP, but we are currently reviewing our Singapore positions as a whole.

The APAC region continued to be weaker than the other developed markets, which negatively affected our relative performance. We continue to search for companies with strong fundamentals, attractive valuations, strong balance sheets and high-quality assets. All regions apart from Japan are expecting interest rate cuts this year, which should benefit real estate stocks generally.

**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.*

DISCLAIMER:

Fairtree Asset Management (Pty) Ltd is an authorised financial services provider (FSP 25917). Collective Investment Schemes in Securities (CIS) should be considered as medium to long-term investments. The value may go up as well as down and past performance is not necessarily a guide to future performance. CISs are traded at the ruling price and can engage in scrip lending and borrowing. A schedule of fees, charges and maximum commissions is available on request from the Manager. A CIS may be closed to new investors in order for it to be managed more efficiently in accordance with its mandate. Performance has been calculated using net NAV to NAV numbers with income reinvested. The performance for each period shown reflects the return for investors who have been fully invested for that period. Individual investor performance may differ as a result of initial fees, the actual investment date, the date of reinvestments and dividend withholding tax. Full performance calculations are available from the manager on request. There is no guarantee in respect of capital or returns in a portfolio. Prescient Management Company (RF) (Pty) Ltd is registered and approved under the Collective Investment Schemes Control Act (No.45 of 2002). For any additional information such as fund prices, fees, brochures, minimum disclosure documents and application forms please www.Fairtree.com

Highest rolling one-year return 35.23% and lowest rolling one-year return -26.73% (information to 31 March 2024). The fund has returned an annualised return of 4.06% since inception (benchmark annualised return of 6.73% since inception). The fund's annualised performance over 1-year is 4.66% (Benchmark: 7.41%). The fund's annualised performance over 3-years is -2.46% (Benchmark: -1.13%).
Fund returns disclosed are annualised returns net of investment management fees and performance fees. Fund returns disclosed are annualised returns net of investment management fees and performance fees. Highest and Lowest performance: The highest and lowest performance for any 1 year over the period since inception have been shown NAV: The net asset value represents the assets of a Fund less its liabilities. Annualised return is weighted average compound growth rate over the period measured.

This document is confidential and issued for the information of the addressee and clients of Fairtree Asset Management only. It is subject to copyright and may not be reproduced in whole or in part without the written permission of Fairtree Asset Management. The information, opinions and recommendations contained herein are and must be construed solely as statements of opinion and not statements of fact. No warranty expressed or implied, as to the accuracy, timeliness, completeness, fitness for any particular purpose of any such recommendation or information is given or made by the Manager in any form or manner whatsoever. Each recommendation or opinion must be weighed solely as one factor in any investment or other decision made by or on behalf of any user of the information contained herein, and such user must accordingly make its own study and evaluation of each strategy/security that it may consider purchasing, holding or selling and should appoint its own investment or financial or other advisers to assist the user in reaching any decision. The Manager will accept no responsibility of whatsoever nature in respect of the use of any statement, opinion, recommendation, or information contained in this document. This document is for information purposes only and does not constitute advice or a solicitation for funds.

Discovery Life Investment Services Pty (Ltd): Registration number 2007/005969/07, branded as Discovery Invest, is an authorised financial services provider. Product rules and terms and conditions apply.

The views and opinions expressed in this article are for information purposes only and should not be seen as advice as defined in the Financial Advisory and Intermediary Services Act. Discovery shall not be liable for any actions taken by any person based on the correctness of this information. For full details on the products, benefits and any conditions, please refer to the relevant fact file. For tailored financial advice, please contact your financial adviser.

For the full CIS disclosure and risk statement, go to:
CIS disclosure:
http://www.discovery.co.za/assets/discoverycoza/corporate/cis-disclosure.pdf
Risk disclosure:
http://www.discovery.co.za/assets/discoverycoza/corporate/risk-disclosure.pdf