

Discovery Global Real Estate Securities Feeder Fund

Q1 2026 Commentary

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The year started off on a good note for property stocks but turned less favourable as tensions between the US and the Middle East brewed, with the fund underperforming the index by 48bps. In absolute terms, the Fund was up 55bps, while the index was up 103bps. The underperformance was mostly driven by the third bite of the apple, stock selection, down 75bps. The first and second bites of the apple, region and sector allocation, increased performance by 25bps. We held 7% cash, higher than usual, as political uncertainty made us cautious, resulting in a positive 6bps performance. However, the Developed Property Index did outperform the S&P 500, which fell 5%, which we believe is likely to continue given the valuation discrepancies. We reduced our Asian overweight as the stocks rose significantly last year, leading to higher valuations, and we have increased our European and UK exposure to benefit from attractive valuations and projected growth. We remain underweight the US as fundamentals for certain sectors and valuations are less attractive.

Regional performance for the quarter was led by developers. The top-performing region for the quarter was Hong Kong, with developers up 18% and REITs up 2%, and we are still overweight Hong Kong developers. Singapore, the US and Japan were tied in second place. The Singapore developers were up 4% with their REITs down 6%, and we remain underweight given less attractive valuations and the overhang of government policy risk. We are most underweight the US, but they have recently outperformed given the US's safe-haven status during the ongoing conflict in the Middle East. We have reduced our weighting in Japan after the developers rose to the point of being fully valued, and we are now underweight the region. The weakest performer for the quarter was Australia, down 14%, and we remain underweight given rising interest rates and persistent inflation. The UK was down 12%, but we are overweight because of specific attractive stock opportunities. Germany is experiencing weakness, with low GDP growth, the



housing market being under pressure, and EU stocks falling 5%. Spain expects high growth, which makes stock picking and timing in this region important.

The US sector performance for the quarter was led by data centres, up 23%, as AI demand soared while supply cannot keep up because of power supply and construction availability. The second-best performer for the quarter was net leases, up 9%, where we are overweight, as this defensive sector continues to drive external growth through accretive transactions. Third best was shopping centres, up 7%, which is our largest overweight as we prefer their valuations and consistent cashflow and valuations relative to malls. Healthcare was fourth, up 5%, as senior housing stocks continue driving the sector higher. The weakest sector for the quarter was offices, down 18%, as office job growth splutters. Residential was the second-worst sector, down 8%, where we are most underweight given weak affordability. We have no exposure to malls, which were down 1%. We are overweight industrials despite fluctuating risks as fundamentals are solid, and the sector was up 2% during the quarter.

The top-performing stocks in our portfolio for Q1 were the US data centre stocks, with Equinix up 28% and Digital Realty up 16%. The third top performer was Japanese developer, Mitsubishi Estate, up 11%, as office demand in Tokyo remains strong. The weakest-performing sector was the US office, and BXP fell 23%, but we maintain our neutral position given quality assets and management with very attractive valuations. UK student housing stock Unite Group was the second worst, down 20%, as student demand weakened and hampered rental growth. The third worst was US SoCal Industrial stock Rexford, down 15%, and we have sold our position in this stock as vacancy continues to grow while management strategy vacillates.

The year started off well for our fund, but the impact of the Middle East conflict challenged property stocks as the quarter ended. We are currently reviewing our US underweight and preferred sectors. We expect interest rate rises to cause some pressure on property stocks, and therefore prefer stocks with strong balance sheets, low debt and good management.