

Discovery Global Real Estate Securities Feeder Fund

Q3 2026 Commentary

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During Q3, the Developed Property Index underperformed global equities, the S&P 500 and the Emerging Property Index as developed market interest rate expectations rose around the globe, hurting the rate-sensitive real estate sector. All US sectors were in the red this quarter. The Fund fell 6.6% in absolute terms, while the index was down 6.1%, resulting in 0.5% relative underperformance. The underperformance was mostly driven by the third bite of the apple, stock selection, which detracted 126bps from performance. The first and second bites of the apple, region and sector allocation, increased performance by 81bps. Currency movements on our 2% cash holdings detracted 6 bps from performance. During the quarter, we moved closer to our index by reducing our US underweight, increasing our Australia and Singapore weights to neutral and reducing our UK, EU and Hong Kong overweight positions.

Regional performance for the quarter was led by Hong Kong, with developers up 7% and the REITs up 2%, and we maintain an overweight position on the back of attractive valuations, strong economic growth and improving property fundamentals. Japan ranked second, with the REITs down 1% and the developers down 4%, but we remain underweight on rising interest rates and mediocre fundamentals. Singapore outperformed the overall property index, with developers down 3% and REITs down 4%, and we increased our weighting given solid economic growth and good fundamentals. The weakest performing region was the EU, down 13%, and we have trimmed our overweight position despite attractive valuations as the operating environment has deteriorated significantly with rising rates and increased fiscal tension. Australia was the second weakest, down 9%, but we have increased our exposure to neutral as valuations have turned more favourable. The US was down 7%, slightly below the index, and we have reduced our underweight as other geographies have become relatively less attractive.

As mentioned, all the US sectors were in the red this quarter. The least weak sector was healthcare, down 2%, and we have increased exposure to it as fundamentals remain strong,



particularly for the senior housing sub-sector. Our largest overweight is the industrial sector, which was down 4%, and we remain committed to it as fundamentals continue to improve. Data centres were down slightly over 4%, where we are neutral as record demand combines with record supply to create a challenging forecasting environment. The weakest sector was shopping centres, down 12%, as higher oil prices and mortgage rates hit consumers. The bond-like net lease sector was down 11%. Our largest underweight, residential, was also down 11% on weak affordability leading to limited transaction volume and pricing tension. Malls, self-storage and offices were all down 10%.

The top-performing stocks in our portfolio for Q3 were all added during the quarter. US industrial stock Rexford was up 10%, and Australian residential stock Stockland was up 6%. Janus Living, which we added following its IPO in the US senior housing space, returned 4% for the quarter. The weakest-performing stocks were all from Europe. Office and data centre stock Merlin was down 23%, German residential stock Leg Immobilien was down 18%, and retail stock Unibail was down 14%. We retain our belief and positions in the former two but have exited the latter as we wanted to reduce our European exposure and Unibail's earnings growth prospects have dimmed.

Over the last two months, the developed market property index has given up all the gains it posted in the year to end-July on the back of rapidly rising interest rates. We believe that the bulk of the interest rate moves are likely behind us, but there is little reason to believe that they will fall back to previous levels given fiscal incontinence and stubbornly high inflation in most geographies. We continue to favour stocks with strong balance sheets, good capital management and solid growth prospects to weather the storm.