

# Discovery Global Value Equity Feeder Fund

30 September 2026

## Market background

Over the quarter, global bond yields surged to levels not seen since the early 2000s. The main culprit was the ongoing conflict in Iran, pushing energy prices higher, raising inflation expectations and prompting rate hikes from a number of central banks. Even so, equity markets finished the quarter higher, shrugging off the rise in rates as well as a significant sell-off in memory names at the beginning of the quarter. We highlighted the astounding rise of South Korea's KOSPI index in the second quarter, but it quickly became the worst-performing major market in Q3, falling 18% following the implosion of hedge fund Situational Awareness and subsequent deleveraging.

Against this backdrop, we found it striking that foreign investors are now buying more US stocks than government bonds, a rare shift amid fears that inflation and America's fast-growing debt pile are undermining the "risk-free" status of Treasuries. Indeed, Deutsche Bank's analysis of US Treasury data shows international flows into US equities averaging 2.8% of US GDP in the year to June, ahead of Treasuries at 2%. Outside brief episodes during Covid-19 and the aftermath of the global financial crisis, that is a first this century. It reflects the ever-growing lure of the US market, with the S&P 500 on track for a fourth straight year of double-digit gains.

Under the bonnet, the AI infrastructure build-out once again captured most of the headlines, but it remains a market divided. Early in the quarter, questions surfaced about falling cash positions among the hyperscalers and the growing reliance on financing to support the build-out. These concerns were quickly forgotten in September, when tech alone powered markets higher and narrowness returned, with a sharp fall in the number of stocks contributing to S&P 500 returns.

## Performance review

The Fund outperformed the benchmark over the quarter.

Performance was driven in large part by our software exposure (SAP, Paycom, Adobe), which we bought into selectively during the AI-driven sell-off earlier this year and which performed strongly over July and August. This reflects a market that has become more discerning about the impact of AI at the individual company level, as evidence has grown that a number of software-like names are successfully incorporating AI to augment their customer offering, rather than being replaced by it. Our Brazilian holdings (B3, XP, Sendas Distribuidora) also contributed, and have continued to outperform strongly since quarter end, following preliminary election results that suggest fiscal reform and closer control of government spending are more likely.

On the detractors' side, not holding the large tech names Microsoft, Nvidia, and Apple detracted over 200bps alone. Among the positions we do hold, Spanish telecoms infrastructure provider Cellnex detracted as concerns continued that low-earth-orbit satellite broadband could ultimately bypass the need for ground-based mobile towers. Booking.com also gave back some of its earlier gains following the release of Meta Muse, as investors weighed the impact of agentic AI on industries such as hotel booking.

## Outlook and strategy

The third quarter was once again a strong one for Value, adding to an impressive run for the index and many Value strategies over the last year. Markets such as Japan and Korea (neither of which we have held in any size) have re-rated from cheap starting levels, and financials have extended what has been a storming five-year run of gains. When



trying to assess whether this run can continue, however, it's important to consider what the Value index now represents.

The top ten holdings of the MSCI ACWI Value index may surprise some. Six of the ten are linked to AI infrastructure spending, and there is significant overlap with the top ten of the MSCI ACWI itself. Traditional Value has had a good run, then, but the index's return has come from two sources: a) the genuine re-rating of cheap markets and sectors, and b) exposure to the AI trade, which has become an increasingly broad driver of the market. Not quite the contrarian index one might expect.

Whether Value's successful run continues or not, we have enough flexibility in our process to not have to rely on it for performance. We continue to focus on the bottom up, finding plenty of interesting opportunities across both traditional and non-traditional 'Value' (US managed care operators, Brazilian names and selective software businesses to name just a few). Our philosophy is simple: what price are we being asked to pay for a business, and how does that compare with our view of its intrinsic Value? A common test sits behind each decision: owners' return. We look for a return achievable from cash distributions and earnings growth alone, treating any re-rating as a free option. That puts very different businesses on a common footing, so a chip company, a bank and a software business can be compared directly, rather than each being judged against its own sector or style. Most importantly, it allows us to follow opportunity wherever it arises, whether it is captured by a screen or not. We remain, as ever, pragmatic about where we find Value, and it is that open-mindedness, combined with the discipline of our underlying framework, that we believe gives us our best chance of continuing to deliver for our clients.