

# Discovery Equity Fund

## Market background

Global equities were broadly positive in July, buoyed by the prospect that the US Federal Reserve (Fed) could bring inflation under control without driving the US economy into a recession. In China, officials pledged support to lift the country's economy and support the struggling property sector, improving sentiment towards the nation's equities and commodities. The Bank of Japan, meanwhile, surprised markets by loosening control of its 10-year yield, effectively allowing rates to rise to a maximum of 1.0%, well above the previous 0.5% limit. Turning to South Africa, inflation continued to show signs of moderating towards the South African Reserve Bank's (SARB's) target range, supporting the central bank's decision to pause its monetary policy tightening. In commodity news, oil had a particularly strong month following production cuts by OPEC+, while gold rallied on the back of growing sentiment that the Fed was nearing the end of its hiking cycle.

## Performance review

The portfolio underperformed the benchmark for the month.

Detractors from performance included underweight positions in FirstRand and Capitec Bank. Following last month's exodus, 'SA Inc.' stocks (companies that derive most of their earnings locally) received some reprieve during July, particularly banks and retailers, which weighed on the portfolio's relative underweight positions. Conversely, the portfolio's overweight position in Old Mutual benefited from the change in sentiment. Also adding value over the period was the portfolio's underweight exposure to Richemont, after the luxury goods company closed the month lower on the back of a potential slowdown in consumer spending in the US, Europe and China.

Significant purchases over the period included Woolworths and Vodacom Group, while significant sales included British American Tobacco and Naspers.

## Outlook and strategy

The portfolio's investment philosophy and process aim to deliver consistent returns for investors. We follow a multi-style investment approach which is dynamically adjusted to ensure that relative risk is actively managed throughout the business cycle. We prefer shares that are trading at a discount relative to the market.

Some of the portfolio's largest overweight positions include British American Tobacco and BHP Group, while significant underweights include FirstRand Bank and Naspers. British American Tobacco displays strong relative quality attributes, while BHP displays strong relative earnings momentum. In contrast, FirstRand displays weak relative quality attributes, while Naspers displays weak relative value.

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