

# Discovery Equity Fund

31 August 2024

## Market background

South African equities rallied in August, with the FTSE/JSE ALSI closing marginally off its all-time high recorded earlier in the month. Sentiment towards risk assets improved after the US Federal Reserve (Fed) signalled the possibility of an interest rate cut in September, while the growing likelihood of a 'soft landing' for the world's largest economy gained traction on the back of more supportive economic data. Global capital markets closed the month broadly firmer, with further support coming in the form of robust corporate earnings for the second quarter of the year.

## Performance review

For the month, the portfolio outperformed the benchmark.

Contributing to relative performance over the period was the portfolio's overweight exposure to Mr Price Group. Our overweight decision was based on strong signals in the earnings expectations, momentum and quality categories. Within the quality category, low volatility and profitability growth stood out as the main positive characteristics. Also contributing to relative performance for the month was the portfolio's overweight position in Telkom. Our overweight decision was based on strong momentum and value signals. Within the value category, positive cash flow yield and earnings yield were the main drawcards.

Among the largest detractors from relative performance for the month was the portfolio's overweight position in Exxaro Resources. Our decision to hold an overweight position in the mining company was influenced by strong signals in the quality and value categories. In the value category, dividend yield and earnings yield were the major contributing factors, while positive profitability and low volatility were the main standout features within the quality category. Also weighing on returns was the portfolio's overweight exposure to Sappi. Our overweight decision was based on strong signals in earnings expectations and value. Within the value category, cash flow yield and book yield stood out as the main contributing factors.

## 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, with positive momentum, positive earnings expectations and low downside risk. Some of the portfolio's largest overweight positions include AVI and Momentum Group Limited, while significant underweights include Bidcorp and Shoprite Holdings. In our view, AVI displays strong positive earnings expectations and strong quality, while Momentum Group Limited displays positive earnings expectations, attractive value, strong quality, and improving momentum. Positive quality refers to good financial health, low volatility and downside risk, while positive value indicates that the stock is trading at an attractive value. In terms of the portfolio's underweights, in our view, Bidcorp displays negative earnings expectations, momentum, quality, and value. Meanwhile, Shoprite Holdings displays negative momentum and poor value.