

Discovery Equity Fund

Market background

Global equity markets started 2022 on the backfoot. The US Federal Reserve's (Fed) change in rhetoric from quantitative easing (QE) to quantitative tightening (QT), alongside the commencement of the interest rate hiking cycle saw volatility shoot up across most equity markets. The MSCI All Countries World Index (ACWI) declined 5% over January, led by the US, where the S&P 500 Index declined 5.2%. Emerging markets (EM) fared better, with the MSCI Emerging Markets Index falling by 1.9%, notably outperforming developed markets (DM).

South Africa bucked the trend and had a particularly strong month in relative terms. The JSE Capped SWIX returned 2.4%, led higher by financials (+3.6%) and resources (+3.4%). This was punctuated by cyclical stocks that are benefitting from still robust economic growth cycle, while domestic equity valuations are attractive and on aggregate remain below long-term averages. Sasol rose 33% (buoyed by Brent Crude oil rising US\$13.5 over the month) and the platinum group-metals (PGMs) basket price rallied 11.3%, driving most PGM miners higher.

Performance review

For the month, the portfolio underperformed the benchmark.

The offshore equity allocation was the biggest drag on performance over the month, with the stronger rand also proving a headwind.

In the local equity component, the underweight in Sasol weighed on relative performance as the company benefitted from rising oil prices. This was further compounded by the underweight position in British American Tobacco, with the company among the best performers on the bourse over the month.

Offsetting some of these losses, the portfolio's overweight positions in ABSA Group and Exxaro Resources were among the top contributors to relative performance. MTN Group was also a notable outperformer in the portfolio, as the company's Nigerian subsidiary posted strong operating results.

Significant purchases over the period included Gold Fields and Shoprite Holdings, while significant sales included BHP Group and Anglo American Platinum.



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 ABSA Group and Exxaro Resources, while its significant underweight holdings include Anglo American and FirstRand Bank. Exxaro displays strong relative quality attributes, while ABSA is showing strong relative earnings revisions. In contrast, both Anglo American and FirstRand display weak relative price momentum.